Greek banking in Constantinople, 1850-1881.

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ABSTRACT

This thesis deals with Greek banking in Constantinople during the period 1850-1881.It is divided into two parts.The first part consits of three chapters.The first chapter is a brief but comprehensive account of the Ottoman economy in the 19th century.Particular emphasis is given to the introduction of foreign capital in the Ottoman empire. Ottoman finances are treated in chapter two.The third chapter deals with the development of the Greek commercial community in Con/ple during the period under consideration.
The second part consits of seven chapters.In this part Greek banking proper is discussed in detail .Chapter IV deals with the emergence of credit in the Ottoman empire.The attempts of Con/politan Greek bankers to involve themselves in the establishment of a National Bank in Turkey during the 1850's are treated in chapter V.The two following chapters discuss Greek banking in Con/ple during the periods 1850-1875 and 1875-1881.Special attention is given to the connections of Greek bankers with the European money markets.Their relationship with the Ottoman state is also pointed out emphatically.The development of three individual banking houses founded by or closely associated with Greek capital is treated in Chapter VIII.The following chapter(IX) examines the attitude of the Con/politan Greek bankers vis-a vis the Greek state and its attempts of placing its loans on the Con/ple money market. Chapter X discuss the role of Greek bankers in the establishment of the Ottoman Public Debt Administration.Emphasis is given to the signing of the Convention of 22 November 1879 which was the prelude to the establishment of the P.D.A .The conclusions drawn from the analysis the material are to be found in chapter XI.Special emphasis is given to the investment attitude of Greek bankers during the period under consideration and in the context of the 19th century Ottoman economy.

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Abbreviations

A.Y.E:Archeia tou Ellinicou Ypourgeiou Exotericon;Archives of the Greek Foreign Ministry,Athens.

AN :Archives Nationals:Ministere d'Economie et Finances,Paris.

A&P :Accounts and Papers,British Museum,London.

C.R :Commercial Reports,Foreign and Commonwealth Office Library,London

ETE :Ethniki Trapeza Tis Elladas.Correspondence of the house of Zarifi and Zafiropoulo with the Administration of the National Bank of Greece.Archeia tis Trapezis:Archives of the National Bank of Greece, Athens.

ETE/L:Correspondence of Michalis Zarifis(London) with the Administration of the National Bank of Greece:Archives of the National Bank of Greece,Athens.

PRO/FO:Public Record Office/Foreign Office,Kew.

AIESEE;Association International des etudes du Sud-Est Europeen.

Colloque;Istanbul a la jonction des cultures balkaniques mediterraneennes, slaves et orientale aux XVIe-XIXe siecles.Istanbul 15-20 Octobre 1973/ Bucarest 1977.

IJMES:Interantional Journal of Middle Eastern Studies.

IJTS :International Journal of Turkish Studies.

JEEH :Journal of European Economic History.

JEH :Journal of Economic History.

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INTRODUCTION

As an economist by training I initially intended to carry out research on the subject of capital accumulation in Greece.After some time I decided to concentrate my research on the Greek bankers in Con/ple and examine their particular role with regard to the 19th century Greek economy.During the course of my studies,however,I gave emphasis to Greek banking in Con/ple and gradually dropped interest in Greece proper.Therefore,the contribution of the Constantinopolitan Greek bankers to ~~the~~ Greek economic development is only partly examined here.On the other hand,however,any approach to the question of ~~the~~ Greek economic history in the 19th century which does not take into account the activities of the Greek diaspora would be unrealistic.In addition,the history of Greeks living outside the small Greek kingdom is an essential and integral part of the history of the Greeks in modern time.To this extent,I hope that my thesis presents an acceptable account of this particular aspect of the Greek history.

At a later stage of my studies my interest was shifted to another question.What was the economic role of the diaspora Greeks.The answer to this question is far beyond the scope of this thesis since any discussion would involve the examination of a variety of aspects regarding Greek economic activities in general,in various areas,and in the course of at least three centuries.Yet,it is not an exaggeration to say that this question hovers over this thesis,in which I discuss some aspects of the question such as,the business mentality of Greek bankers in Con/ple,their motives and their function in the context of the Ottoman economy in 1850-1881.

It is essential to note that such aspects of the Greek diaspora are not only little studied but,to the extent they have been discussed at all,misunderstood as well.There are few,and not always convincing,monographs,and articles examining the Greek diaspora.Since the diaspora Greeks are considered to be a product of European capitalism-which is undoubtedly true-their economic activities are always examined in this context.Thus,there has been no analysis of the Greek diaspora as a relatively autonomous phenomenon in the context of particular economies and in particular eras.

Finally the primary material used in this thesis should be presented.It is unfortunate that my thesis does not draw upon the archives of individual Greek bankers.To the best of my knowledge such archives simply do not exist.I was,therefore,obliged to consult various archives most of which touch only indirectly on the subject.The archives of the National Bank of Greece,which was in regular correspondence with the House of Zarifi and Zafiropoulo in Con/ple,proved very helpful.Additionally,I found much useful information in the Public Records office,the Archives of the french Ministry of Finance,and the Greek Foreign Ministry.Contemporary newspapers and magazines,such as Neologos of Constantinople and the Levant Herald proved a valuable source of information,containing as they do the annual reports of the Greek banks as well as much information about banking in Con/ple.The Memoirs of the Greek banker Andreas Syngros were also very helpful.This unique three volume work provides many details about banking in Con/ple during the period under discussion and can be used as a valuable source of first hand information.

The reader will come across the use of different currencies.The reason why I refer to various currencies,instead of one,is because I wanted to present the figures in the form and currency used by in the original sources.This may create some confusion and the reader should consult Appendix I where the parities of currencies used in this thesis is presented.

The thesis is divided into two Parts.The first Part is introductory and is divided into three chapters.An attempt is made at an analysis of the Ottoman economy,Ottoman finances,and the development of the Greek commercial community in Con/ple.The second Part deals with Greek banking activity in Con/ple.It is divided into seven Chapters.The first of these Chapters(IV) deals generally with the development of credit in the Ottoman empire.In the second(V) the attempts of Greek bankers to involve themselves in the establishment of a State Bank in Turkey during the 1850's are treated in detail.The next two Chapters(VI and VII) discuss Greek banking in Con/ple during the period 1850-1881.Emphasis is placed on the short term advances which the Greek bankers contracted with the Treasury.Special attention is also given to the association of the Greek bankers with the European money markets.Chapter VIII examines the development and activities of three Constantinopolitan banks strongly associated with or founded by Greek capital there.Chapter IX deals with the involvement of Greek bankers in the placing of the loans of the Greek state in Con/ple.Finally,the role of the Greek bankers in the settlement of the Ottoman public Debt is examined in Chapter X.The Conclusion(XI) discuss the major aspects of Greek banking in Con/ple and advance arguments to analyse the investment behaviour of Greek bankers.An appendix section,which I hope the reader will find useful,deals with the Currency parities,and the documents of the Convention of 22 November 1879 signed between the Ottoman government and local bankers.

PART I

CHAPTER I:The 19th century Ottoman empire:the economic landscape.

This chapter deals with the major economic developments in the Ottoman economy during the 19th century.In many respects these developments-connected with the growth of agriculture and the introduction of foreign capital-were the factors which determined the nature and scope of banking in Con/ple.During the period under discussion the Ottoman economy had already passed into the sphere of European capitalism.Whether this particular relation implies the peripheralisation of the Ottoman economy is another question [ISMAMOGLOU and KEYDAR(1977),WALLERSTEIN and KASABA(1983)].The fact is that this economy had established tight links with the European capitalist system.This statement alone,however,tells us little.What is more important is the extent to which the Ottoman command economy was affected by the demand of European markets.

Agriculture and urban crafts constituted the main productive sectors of the Ottoman economy.Both activities were regulated by a carefully established administrative system.Initially agriculture was controlled through the timar system which was based on the concept that land belonged to the Sultan,the God's representative on earth.The Sultan granted timar lands to his warriors for their war services.In return they were obliged to provide a number of mounted soldiers in case of war.Timariots,however,did not own the land.Nor did they have the right to bequeath it to their heirs.Their task was to see that land was continuously cultivated and that taxes were paid regularly.Timariots were civil servants whose income derived from their holding instead of the Treasury.However,the position of cultivators was relatively advantageous.The timariot had no rights over them and they were granted the tenure of their lands for life.Their heirs could inherit their land and the timariot had no right to intervene.Moreover,they had very limited obligations towards the timariot,namely the cultivation of his land for a few days each year or the carrying of his harvest to the market.Corvee in the sense in which it was used in Western Europe simply did not exist.Compared to the life of cultivators living outside the Sultan's realm where serfdom was an institutionalised reality,Ottoman peasants were relatively privileged.The timar system meant that the central authority was in continuous receipt of taxes,while at the same time the establishment of big landownership was averted [To mention only a few of the books & articles referring to the Ottoman land regime see GIBB and BOWEN(1950) I,235-264,INALCIK(1955),VERGOPOULOS(1975),CVETKOVA(1979),MC GOWAN(1980) 44-79,WALLERSTEIN and KASABA(1983)].

Craft industry was similarly regulated.Urban crafts were hierarchically organised and their activities were carefully supervised by the head of each craft who was also the craft's representative .Production of crafts tended to be of very high quality as it had to meet the standards set by the authorities.Prices were carefully regulated by the government in order to preserve the balance between supply and demand.The prices of raw materials and their distribution among the individual members of each craft were also regulated by the government.The head of each craft was responsible for the collection of the taxes,the supervision of the distribution of raw materials and the control of prices.The craft system reproduced a specific division of labour and prevented accumulation of private wealth.At the same time,it allowed the circulation of goods and provided the Ottoman government with part of its income [On the guild system see

BAER(1979a) and(1979b),GIBB and BOWEN(1950) II,277-298].

These two redistributive mechanisms constituted the basis of the Ottoman command economy.Through them the state regulated production and taxation,prevented the accumulation of either land or capital in private hands and secured economic self-sufficiency.In addition,all other spheres of economic activity in the Empire were regulated.Export trade in particular was closely regulated by the government.The sale of most products was monopolised by various guilds which along with the state monopolies controlled the Ottoman market [KOYMEN(1970)307-310].In addition,the Ottoman state had the right of pre-emption of foodstuffs for the provisioning of the Ottoman capital [GUCER(1950)153-162,CVETKOVA(1970)172-193].

The Ottoman social system was based on the administrative functions of the State.In this sense the Ottoman empire during the 15-18th centuries certainly merits the description of an "Empire Monde" because social and political coherence came as a result of the redistributive and administrative mechanisms of the state [SUNAR(1981) 551-2].Nevertheless this system was depended upon certain preconditions.It is generally agreed that territorial expansion was a very important factor contributing to social and economic stability.Conquest of new lands increased incomes and strengthened the system itself.The checking of Ottoman expansion inevitably led to the decline of timariot incomes.In addition the inflation of the 16th and 17th centuries and the continual devaluation of the Ottoman currency further decreased the income of timariots [CVETKOVA(1979) 98-99].Not surprisingly,these developments spread discontent among timariots,a factor tending to distabilize the Ottoman land regime.

The checking of territorial expansion affected the central government as well.State income decreased rapidly.The devaluation of the Ottoman currency could not be used with much effect because of inflation.The Treasury faced a serious financial crisis.Promptly the government applied measures in order to offset the loss.New taxes were imposed upon the population.In addition a new fiscal measure was introduced;tax farming(mukataa).The government farmed out large parts of the Imperial lands in the hope of increasing its income in the short term.Indeed tax farming proved useful and provided temporary relief for the Treasury.In the long term,however,this measure proved a most distabilizing factor;it was the fatal blow for the timar system.Although some timariots succeeded in getting tax farming contracts,the main beneficiaries were state dignitaries [KARPAT(1974) 90-91].Gradually,agricultural production came under the control of tax farmers.The introduction of the Malikane system(lifetime taxfarming) simply strengthened this process.The appropriation of economic surplus by tax farmers intensified the conflict within the Ottoman ruling class,to the great detriment of the Central government.The emergence of strong landlords and local notables(ayan) was the outcome of the conflict which led to the total subversion of the timar system and the establishment of the chiftlik economy (1).

To the imbalances produced by the change in the land regime a new and most important factor was added:the industrial revolution in Europe.Due to the changes this revolution brought on Europe,demand for foodstuffs and raw materials increased dramatically.Not surprisingly,this demand affected production in the Ottoman lands,and particularly in the Balkan provinces.In this context the development of the chiftlik economy is very important;chiftliks became increasingly connected with European demand.In fact the bulk of production in these estates was absorbed by the European markets [STOIANOVICH(1953) 403-407].The traditional grain centres of the Empire,located in the Western and Northern parts of the Aegean and Black Seas,promptly responded to this demand.Theoretically,exports of grain were prohibited because cereal production was used for the provisioning of Con/ple.Contraband,however,was widespread and through it large quantities of grain found their way to Europe.In the event,the increase in prices proved the major factor which severely affected the Ottoman command economy.Since its establishment the State had emphasised imports rather than exports,which were carefully regulated.Now,due to European demand this process was reversed to the great detriment of the Ottoman state's control over the economy.

During the 19th century this process was intensified.It can be assumed that tighter links with European economies led to the gradual and inevitable destruction of the Ottoman command ecomony.Certainly commercial relations with the West were not a new phenomenon.Yet it was only during the 19th and early 20th centuries that trade with Europe increased considerably.It is estimated that Ottoman trade with Europe increased fifty fold between 1800 and 1913 [ISSAWI(1980) 76,see also ISSAWI(1974) 113-116].The interval of the Napoleonic wars-which proved a major setback to the development of the Levant trade and totally destroyed the predominance of French commerce in the region-was followed by a period of rapid growth in commercial transactions [OWEN(1981) 84-91].The commercial Treaty signed between the British and the Ottoman governments in 1838 simply endorsed an already existing trend.However,this convention provided a more stable and safe ground for commercial activities and in this sense it further contributed to the development of foreign trade.Commercial considerations apart,the Treaty was of vital importance to the British who wanted to revitalise the Empire in order to check Russian expansionism [CAIN(1980) 32-33].

Many historians share the view that the Treaty was responsible for the destruction of Ottoman craft industry [ISSAWI(1966) 42,KOYMEN(1970) 310-316,AREN(1983) 453-454,KANCAL(1983) 366-369].A more careful examination of the Treaty's articles reveals objections to this hypothesis [KURMUS(1983)].Yet the Treaty established free trade in the empire and allowed mass imports of European goods which eventually offered a strong competition to the Ottoman craft industry.To this extent the Treaty had grave long term implications and it was a blow to the Ottoman craft industry.In fact craft industry in Turkey could be sound only in the context of a close and state protected economy (2).Compared to European industries Turkish crafts were an obsolete institution with inadequate technologies,management and financing.To say,however,that European goods immediately flooded the Ottoman market is an exaggeration.The introduction of foreign goods was a slow process which in its first stages affected only certain areas of the Empire.Craft industry continued to meet local demand in many provinces,particularly in the Eastern parts of the Empire.In addition the population increase after the 1860's combined with the sudden disappearence of plague in the Eastern and Arab lands contributed to the revival of the clothing craft industry [OWEN(1981) 93-94].

Yet,on the whole,foreign goods in the Empire successfully competed with local products and gradually gained ground.Turkish imports consisted mainly of industrial products.In 1825,for example,Turkish imports of cotton products from the U.K accounted for 45% of total British exports to Turkey [BAILEY(1942),247].In 1875 this proportion had reached 78.9% [KANCAL(1983) 380].A similar situation existed with regard to the exports of other European countries.In 1839 French exports to Turkey mainly consisted of linen and silk products and refined sugar(60% of the total).In 1875 Turkish imports from France almost entirely consisted of manufactured goods despite the fact that the proportion of these three products had declined to 36 % of the total[KANCAL(1983) 386-87].In the event Ottoman crafts were not in a position to stem the imports of European goods and their economic role inevitably declined.Thus,increasing commercial transactions with Europe in the 19th century severely affected one of the Empire's major institutions.

However,if industry in Turkey was affected by foreign competition the situation in the agricultural sector looked more promising.The end of the Napoleonic wars reintroduced large scale trade in the region.As a consequence of the new industrial era the demand for foodstuffs and raw materials substantially increased.As early as the 1830's raw materials such as madder roots,silk etc were exported from Turkey in large quantities.This development is clearly shown by the growth of Ottoman exports to England.From £726.065 in 1830 Turkish exports rose to £1.465.972 in 1845 and then jumped to £3,050,518 in 1852 [BAILEY(1942) 70-72].

Yet economic growth in Turkey was unsteady.It was based on an irregular development of foreign trade which,in turn,was conditional upon the vicissitudes of European demand.In fact agricultural production in the 19th century was considerably boosted by two extraordinary events;The Crimean and American Civil Wars.In both cases the export-oriented sector of the Ottoman agriculture responded to soaring prices.As a consequence of the Crimean war Russian cereal exports to Europe ceased.In addition,the presence of large European armies in the area required considerable quantities of foodstuffs.Cereal prices rose dramatically.During the years 1853-55 wheat prices in Salonica varied between 20-25 fr per Kile(=25kg approximatelly) in comparison to 4fr in 1851 [VAKALOPOULOS(1980) 74].In the same period barley prices in Con/ple reached 8 fr per Kile whereas before the War they had never exceeded 2 fr[SYNGROS(1908) I,251].

The American Civil War also affected prices and production in the Ottoman Empire.The interruption of raw cotton exports from the Confederacy due to the blockade of its ports resulted in a sudden shortage of cotton supply to the European textile industries.European industrialists sought new sources of supply and the Middle East received much attention from them.Egypt and Turkey benefitted from such a move.Cotton prices in this region soared.In the Smyrna area for example,cotton prices jumped from 250-300 piastres per quintal in 1860 to 700-1000 in 1863 and reached 1300 piastres in 1864 [OWEN(1981) 112].In 1865 in Salonica cotton prices reached 500 fr for each bale of 150kg [VAKALOPOULOS(1980) 79].Following this sharp rise in prices cotton production and exports rapidly increased.In Bulgaria and Thrace the area devoted to cotton production doubled,while in Smyrna it increased five fold [ISSAWI(1980) 234].The total cotton production of Anatolia during the American Civil war probably exceeded the,until then unprecedented,level of 80.000 bales.The increase in exports was even more spectacular.In Smyrna alone cotton exports rose from 1200 tons in 1858 to 13.860 in 1865 [ISSAWI(1980) 234,OWEN(1980) 112].The value of cotton exported from Salonica reached 16 million fr in 1865 in comparison with 2.782.000 fr in

1862 [VAKALOPOULOS(1980) 77].

The impact of the Crimean and American Wars on Ottoman agriculture was important.Ottoman agriculture experienced a considerable growth both in terms of production and exports.The increase in prices provided a further stimulus to the expansion of cash crop cultivation,whose products continued to enjoy high prices.However,the growth of Ottoman agriculture during the 1860's came to an abrupt halt in the following decade.This was due to the "Great" European depression of 1873 which caused prices to decrease rapidly.From 1873 onwards the price of almost every item produced in Turkey such as cotton,silk,cereals,opium etc fell and both production and exports declined.Moreover,the development of European overseas trade also affected the Turkish economy adversely.Large quantities of American agricultural products overwhelmed the European markets and offered an increasing,and by and large,successful competition to goods produced in the Middle East.The revival of American cotton production for example largely contributed to the reduction of European demand for Turkish and Egyptian cotton.In addition Turkish exports and production of goods such as silk,wool and cotton yarn were affected by the opening of new sources in the Far East (3).

One may assume,however,that economic growth in the 19th century Ottoman empire was mainly associated with agriculure.Yet this growth could not conceal the intrinsic problems of Ottoman agriculture.In fact only certain areas in the empire experienced acceptable levels of growth.In other words the growth of agriculture did not affect all Turkish provinces equally.The development of cash crop cultivation was confined mainly to the Balkan provinces and the regions around Adana and Smyrna.It was in these areas that the development of the export-oriented sectors of

Ottoman agriculture reached a substantial level.

In addition,agricultural growth proper eventually came to be associated with cash crop cultivation.For in an underdeveloped pre-capitalist society and economy cereals were a traditional product and as such cereal production should be considered rather as a sign of traditional agriculture than a sign of economic specialization.Undoubtedly,world demand provided an incentive for cereal production as well.And,in this sense,the commercialisation of Ottoman agriculture also involved cereals.Yet,in the Ottoman empire,cereals were mainly used for home consumption,a fact which hampered their exports.In addition cereal production was further hampered by the primitive technology involved,as well as by the poor transport system which increased the final cost.

Conversely cash crop cultivation proved a much more dynamic sector.The technologies it involved were more advanced,while the fact that cash crops were produced in areas with good transport facilities confined the final cost to acceptable and competitive levels.Indeed the areas where cash crop cultivation thrived were near ports such as Smyrna,Salonica and Mersina which were serviced by large numbers of sail and steam vessels.In addition,these ports were connected by rail with their adjacent hinterlands.In fact,the first Ottoman railway,the Smyrna-Cassaba line,was built in 1866 precisely for this purpose.In the event,cash crop production became the leading export item of the Ottoman agriculture.By the end of the 19th century the bulk of Ottoman exports consisted of cash crops.In 1897 for example,the export value of grapes tobacco,figs,coton and raw silk reached 576.million piastres and accounted for 52% of total exports [SHAW(1977) 237].This proportion substantialy increased during the following years [QUATAERT(1973) 336ff].Conversely,cereal exports were in decline.In fact,during the following decades the Ottoman empire became a net importer of cereals [ISSAWI(1980) 211].

At this point,it should be emphasised that the pattern of agricultural growth in the Ottoman empire was not based on monocrop cultivation.Indeed,the export oriented sector of Ottoman agriculture specialized in a variety of cash crops such as silk,cotton,opium,tobacco,figs,and grapes [QUATAERT(1973) 217-314 and QUATAERT(1980) 40-43].The diversification of agricultural production in Turkey provided a different pattern of agricultural growth.Other countries in the area such as Greece,Serbia and Egypt experienced monocrop cultivation.Currants were the major product of the Greek economy which in the period 1857-1875 accounted for 47.5% of exports on average terms [DAKIN(1979) Appen VIII].Serbia's main products were plums and prunes [LAMPE and JACKSON(1982) 177-79] whereas the main product of the Egyptian economy was cotton [OWEN(1981) 135-9].Certainly the fact that Ottoman cultivators were involved in the production of a variety of crops does not necessarily imply that the Ottoman economy was less dependent upon European demand than the other economies.Indeed this demand was the major stimulus for production and its vicissitudes affected both the monocrop and more diversified economies to the same extent.

Inevitably,Ottoman agriculture adapted itself to the laws of world market economy;the level of prices defined the response of Ottoman agriculture to European demand.As a consequence the control of the Ottoman state over agricultural production and trade weakened.This was particularly true for grain production and exports.It was no longer possible to impose an official ban on cereal exports without facing strong reactions from European merchants.Although the Ottoman government reserved the right to ban such exports,and indeed sometimes did so,cereals became a major export item.Thus during the period under discussion the connection of Ottoman agriculture with the European capitalist economies was considerably strengthened.European capitalism imposed a division of labour on the Ottoman economy which finally led to the shrinking of craft industry and the growth of agriculture.In the final analysis the Empire became a net exporter of raw materials and foodstuffs and at the same time a net importer of manufactured goods.The new division of labour,however,imposed a form of economic dependency never before faced.The Ottoman economy was not in a position to meet local demand except through European imports.In this sense the traditional system of self sufficiency was totally overthrown.The increasing commercialisation of Ottoman agriculture gradually redefined the patterns of production and exports in a fashion not always compatible with the state policy,whereas European products imposed new patterns of demand which the Ottoman craft industry was unable to meet.

In addition,the development of the export oriented sector of Ottoman agriculture was not enough;throughout the period under consideration the Ottoman balance-of-trade was in deficit.The increase in production and exports could not counterbalance imports.When the first official balance of trade was published in 1881 it showed a total trade deficit of £T 2.7 million [Report by WYNDHAM,CR(1883-84),Turkey,483-4].It is now argued that Ottoman exports were usually undervalued [KEYDAR(1980) 325,ISSAWI(1980)79].However true this may be there is no doubt that the Ottoman empire experienced trade deficits.This is apparent if Turkey's commercial relations with its main trade partners are examined;England,France and Austria absorbed more than 80% of Turkish exports and at the same time provided 75% of the total Ottoman imports [ISSAWI(1980)79,86-87].Great Britain,Turkey's leading trade partner always enjoyed trade surpluses.During the period 1841-45 Great Britain exported goods worth £ 5.814.000(on average terms)whereas Turkish exports to the U.K were £ 1.227.000 [BAILEY(1942)74].Thirty years later,if improved,the Turco-British trade was still in Britain's favour.Turkish exports to the U.K averaged £ 6.175.000 whereas British imports to Turkey were £7.000.000 [KANCAL(1983)371].Great Britain remained the leading trade partner of Turkey till the eve of WW I but its share declined sharply after 1880 [ISSAWI(1980)79].

Conversely,Turkey fared better with the French.France was a very important customer for products such as cotton,opium,olive oil,and raisins.There were periods where France enjoyed trade surpluses.In 1876,for example,French exports to Turkey amounted to £ 2.957.000 whereas Turkey exported to France goods worth £ 2,332.000 [SHAW(1977)122].Nevertheless it was Turkey which usually experienced trade surpluses [KANCAL(1983)372].On the other hand Austro-Turkish trade was always in Austria'a favour.From 1840's onwards Turkey imported large quantities of Austro-Hungarian products but its exports never matched or even approached the level of imports.In 1876,for example,Turkey exported goods worth £T 891.759 whereas Austrian imports reached £T 2.885.157 [SHAW(1977)122].The movement in the trade with Great Britain and Austria testify that indeed Turkey suffered large trade deficits which could not have been counterbalanced by the surpluses of the trade with France.

Trade deficits are usually attributed to the fact that the Ottoman state was never subject to colonisation

[KEYDAR(1980)325].However tempting this analysis might look it is not well substantiated.In addition the experience of other countries such as the Latin American Republics or others such as Bulgaria and Romania most of the time enjoyed trade surpluses.It would be more proper to suggest that trade deficits derived from the limited expansion of cash crop cultivation.In fact the bulk of cultivated land was devoted to cereal cultivation.In the late 19th century more than 80% of the total cultivated land was used for cereal production which was extensive even in those areas specialising in cash crop cultivation.As late as 1909 in the provinces of Smyrna,Adana and Bursa-the main cash crop production areas-70% of the cultivated land was still devoted to cereal cultivation [OWEN(1981)200].It seems,therefore,that regional inequalities in production patterns were responsible for trade deficits.Had cash crop cultivation been expanded Ottoman exports would have been substantially increased.

However,the commercialisation of Ottoman agriculture,and of cash crop cultivation in particular,brought a radical change in the Ottoman economy.This process intensified the drive towards the establishment of private property in land.It is well known that land ownership in the Ottoman empire belonged to the State.In 1858,however,the Ottoman government published the Land Code which codified existing practices in Land tenure.According to it the land was divided into five major classifications:mulk or freehold land;miri land,which was directly controlled by the state;vakif land,whose revenues were devoted to pious foundations;metruke or vacant land;muevat or unused land [NICOLAIDES(1889) 1005-1008].In reality the bulk of land consisted of miri holdings and to a lesser extent of vakif.Only a tiny proportion of the total was mulk land.

A closer analysis of Ottoman land policy would reveal that the code was part of the centralising policies of the Tanzimat period.There is evidence to believe that a large part of miri land was claimed by individuals [KARPAT(1968)85].By publishing the Code the government attempted to re-establish the state's rights to land.Consequently miri land was subjected to tighter control.The bulk of the Code's articles concerned miri land.Moreover the Ottoman government attempted to check the expansion of vakif land.Vakif revenues were devoted to charitable purposes and were exempted from taxation.It seems that through the previous centuries a large part of land had been converted into vakif in order to avoid taxation or confiscation.According to the Code only freehold property,mulk,could be converted into vakif.On the other hand the cultivator was provided with an official document,the tapu senedi,which secured the tenure of his plot [NICOLAIDES(1889)1017 (4)].Moreover the Code enabled him to dispose of his land freelly or even to buy the tenure of more land.The state also guaranteed certain rights of inheritance,especially with the promulgation of the 1867 law which extended these rights down to seventeen degrees of kinship [NICOLAIDES:ibid,1023-1023].

Although the Code improved the cultivator's legal status it also incorporated certain restrictions.The land could be transferred only with the approval of the local authorities.The cultivator was obliged to farm the land continuously;if he left it uncultivated for more than threeyears the State had the right to confiscate it.The erection of new buildings within the allocated area was prohibited.If such buildings were erected the authorities reserved the right to demolish them.In addition the cultivator could not plant vineyards or other kinds of fruit trees at the expense of cereals without the offical permission of the local authorities.Finally,the cultivator's mortgage rights were restricted and the mortgaging of land was allowed only under certain conditions [NICOLAIDES(1889) 1030-31,1013-15,BAER(1966)83-88,HERSHLAG(1964)40-43].

It is clear that the Code's emphasis was placed on production and the re-assertion of state rights to land.The Ottoman government presumably used its control to encourage production in an attempt to increase the cultivator's taxpaying capacity.It is usually claimed that the Land Code introduced the concept of private property in land [STEEG(1924),INALCIK(1955),WARRINER(1966),BALARBI(1983),QUATAERT(1973)].Other historians claim that although the Ottoman government did not intend to introduce private property in land it was obliged to do so because the Land Code proved unworkable [KARPAT(1968) and (1977a)].Yet there is evidence to suggest that the Ottoman State never institutionalised private property in land.Apart from the 1867 law which extended rights of inheritence no other innovation was ever introduced.The only significant exception was the 1913 Code of"Landed property" which extended property rights in land.However,the Young Turks did not abolish the 1858 Code.Let alone that their agrarian policy was considerably hampered by the existing social relations in the counrtyside and the exigencies of war [AHMAD(1983)275-288].In fact the establishment of private property in land was a development closely associated with the emergence of National states in the area.All National States in the Balkans-including the Turkish Republic-introduced and institutionalised private property in land.That was only to be expected because the subversion of the Ottoman institutions became the corner-stone of nationalist politics.

However,those involved in cash crop production attempted to establish a tighter control over their lands.This process was a long term phenomenon in part connected with the emergence of the chiftlik economy.Indeed chiftlik estates appeared in zones specialising in cash crop cultivation and their production was absorbed by the European markets.Certainly chiftlik lands were not entirely devoted to cash crop cultivation.Cereal cultivation was equally important.There were even occasions when chiftlik holders neglected cash crop production [PANAGIOTOPOULOS(1984)359-373].Yet,whatever the nature of the produce of chiftlik lands,it was mainly exported to Europe.As early as the 18th century,Macedonia and Thrace exported half of their grain and cotton production to Europe [WALLERSTEIN and KASABA(1983)342].In this sense the chiftlik economy played an important role in the commercialisation of Ottoman agriculture.Moreover,there is evidence to suggest that during the 19th century chiftlik holders shifted to cash crop cultivation.

However,it would be an exaggeration to claim that the growth of cash crop cultivation derived entirely from the chiftlik economy;small cultivators were also involved in cash crop production and to a large extent they,too,contributed to its growth [QUATAERT(1980)54,LAMPE and JACKSON(1982)134-139].Nevertheless,in both cases cash crop cultivation required flexibility in production.Instead the Land Code encouraged cereal production whereas cash crop cultivation received little official attention.Inevitably this restriction led to various reactions.It is reasonable to assume that landholders in various ways demanded the introduction of a more flexible land regime.These reactions-a study of which is badly needed- could have taken a variety of forms ranging from bribing officials to the abuse of,or the ignoring of the Code proper.In addition,claims to land ownership became more pressing as land values increased with improved communication and commercialised agriculture.Moreover,the 1867 law which extended rights over land to Europeans provided a further motive towards property in land.Europeans were interested only in commercialised agriculture and in fact most of their estates were found around the Smyrna area [OWEN(1981)114].To the extent that farmers and landowners wanted to involve themselves in cash crop production they came to realise the ambiguities limits and contradictions of the Ottoman land regime.In the event many individuals succeeded in getting a firmer control over their lands,a kind of de facto private property.This change,however,was never institutionalised by the Ottoman state.

In this way changes in the land regime were caused by the close connection of some parts of the Ottoman empire with European markets.As a consequence the grip of the Ottoman State over land substantially weakened.Therefore,during the 19th century European demand considerably affected the Ottoman command economy and contributed to its final disarticulation.The introduction and domination of free trade in the region weakened the control of the Ottoman state over the movement of goods whereas European demand affected the pattern of production and provided motives for cash crop cultivation.Such changes brought the Ottoman economy further into the network of European capitalism.This development inevitably led to a further stage:the introduction of foreign capital into the Ottoman empire.

The 1850's marked a new era in the economic history of Western Europe.The "golden age" of European capitalisn was about to begin.The 1848 revolutionary tide had stopped.Having restored social "peace" and tranquillity all Western European states rushed into the road of rapid economic development [HOBSBAWN(1977)43-63].The increase in trade was phenomenal.Industrial output rose beyond expectation.Yet,a very important aspect,closely associated with the development of European capitalism is to be found in the international movement of capital.In fact European foreign investments began in the early 19th century.The money markets of London and Paris had promptly responded to several capital calls concerning state loans and,at a later stage,the funding of railway lines.However,this long term phenomenon assumed enormous dimensions only in the second half of the 19th century.It was during that period,and until the eve of WW I,that the international movement of capital exercised a profound and unique impact on the structure of world economy.

Foreign investment in the Ottoman empire was negligible until the 1850's [ISSAWI(1974)117].The first Ottoman loan was raised during the Crimean War presumably in order to allow the Ottoman state to cope with the War emergencies.From 1854 onwards the Empire experienced an almost continuous influx of foreign capital punctuated by sharp reversals between 1875 and 1881.The placing of European investments in this country followed a concrete pattern.Foreign capital was mainly invested in three sectors;in railways (5);in the Ottoman loans;and in banks.During the period under discussion,however,investments in the last two sectors were of much greater importance.The Ottoman Imperial loans absorbed the bulk of foreign capital whereas investments in banks allowed the establishment of such institutions whose continuous assistance to foreign investments proved valuable.

Foreign investors found in the Ottoman loans very remunerative terms for their capital.In fact investment attitudes were uniform.Both French and British investors-by far the most important factors in the movement of foreign capital in Turkey-manifested a conspicuous preference for the Ottoman loans.During the period 1860-1874,for example,the Ottoman state raised £ 87.8 million in the London money market [JENKS(1971)421-424].This figure represented 14% of the total of £ 662.1 million raised in this market on behalf of independent states.To this amount a further £ 14 million must be added representing the loans raised in the London market between 1854 and 1859.Certainly,if direct investments in the British empire and the Americas are taken into consideration the proportion of Ottoman loans to total British overseas investments was not so impressive.However,it is beyond doubt that these loans became an important outlet for British investors.Conversely,and apart from some isolated cases,the latter eschewed mass investments in other sectors.In fact this investment attitude prevailed for the rest of the 19th century and at least until the eve of WW I.The figures for 1914 better illustrate the situation:out of a total British investment of approximately 808 million fr(=£T 35 million),578 million or 71.5% of the total were placed in the Ottoman Public debt [FEIS(1930)320,for the reriod 1909-1912 see ISSAWI(1980)324].

French investments in Turkey followed a similar pattern.Unfortunately,no figures are available regarding the total French investments in this country before 1881.A modern source suggests that the total French investments in the Middle East in the period 1854-1881 amounted to 3450 million fr(=£T 150.000.000) [CAMERON(1971)95-97].This amount,accounting for 23% of the total,indicates the importance which the Middle East held for French investments.In this case also,the bulk of capital,2850 million fr, was invested in loans.The suggested figure,however,is confusing because it includes investments in Egypt as well.Moreover,no sufficient indication regarding the volume of French investments in Turkey could be found in the number of loans issued by French banks.According to the existing information five out of a total of sixteen loans were issued by French banks.These loans,amounting to £T 120 million,accounted for 49% of the Ottoman Public debt in the period 1854-1881[See Table I,21a].In addition,large parts of the loans issued by the Imperial Bank-a French British concern-were also held by French investors.However this number is misleading.Almost every Ottoman loan was simultanuously placed both in the London and Paris money markets regardless of which bank was the contractor.Therefore substantial parts of the loans issued by the French were held by British investors.Moreover large numbers of Ottoman bonds were transacted in other minor European money markets and eventually came into the possession of Dutch,German,Austrian and Italian capitalists.

There is evidence to suggest that the number of Ottoman bonds held by French investors decreased after 1875 mainly owing to the Ottoman suspension of debt service which took place in this year.According to E Mercret,the director of the Credit Lyonnais branch in Con/ple,in 1877 the value of Ottoman bonds held by French was £T 35 miilion out of a total of £T 175 [COURRIER D'ORIENT,no 117,4/4/1877 (6)].According to the same source,the single largest group of bondholders was the British who actually held bonds valued at £T 90 million followed by the the French,and the Ottomans(£T 25 million).The remaining Ottoman Debt was almost equally held by Austrian,German,Italian and Dutch investors.The figure regarding British participation in the Ottoman Debt seems fairly consistent with the one provided by Jenks.This implies that

Table I:The Ottoman Loans.

Year	Rate of interest	Nominal amount	Rate of issue	Contractors	Securities
1854	6	3300	80	Dent,Palmer and Co	Egyptian Tribute.
1855	4	5500	102	N.M Rothschild and Co	Egyptian Tribute, Customs of Smyrna and Syria.
1858-59	6	3300+2200	av.74.1	Dent,Palmer and Co.	Customs revenues of Con/ple.
1860 *	6	17391	62.5	Mires et Cie	Indirect contributions and tithes of various sandjaks.
1862	6	8800	68	Ottoman Bank,Deveux et Cie	Taxes on salt,tobacco and patentes.
1863	6	8700	71	Ottoman Imperial Bank	The tithe of various vilayets.
1865	6	6520	66	Ottoman Imperial Bank	Sheep Tax of Rumelia and of Archipelago,Tokat mines.
1865	5	40000	60	Societé Générale(Paris) General Credit.	The general revenues of the Empire.
1869	6	24154	54	Comptoir d'Escompte	The tithe of various vilayets.
1870 **	3	34848	32	Societé Impériale des Chemins de fer de la Turquie d'Europe	Kilometric guarantee.
1871	6	6270	73	Credit Général Ottoman, Dent,Palmer and Co.	Egyptian Tribute.
1872	9	12093	98	Crédit Général Ottoman.	Revenues of various vilayets.
1873	6	30556	54	Crédit Ottoman,Banque de Con/ple,Societé du Credit Mobilier.	Revenues of various vilayets.
1873***	5	22252	54		
1874	5	44000	43.5	Ottoman Imperial Bank.	No specific guarantee.

* Loan not ratified.
**Realised in a period of three years.
***Treasury Bonds.

Source:A&P: 1878 LXXXII

British investors held their bonds even after the suspension of payments was declared.If one takes into account the important role played by the British committees in the settlement of the Ottoman Debt that appears to be true.

One may,therefore,suggest that French investments in the Ottoman loans never exceeded those of the British.The value of Ottoman bonds held by French capitalists probably varied between £T 50-70 million but it rapidly decreased after 1873.From 1881 onwards,however,French investments increased rapidly and soon assumed the leadind role in foreign investments in the Ottoman empire.On the eve of WW I French investments amounted to 2.5 billion fr and by far outnumbered every other [ISSAWI(1980)324].

On any reckoning the movement of both French and British capital in Turkey was part of the proliferation of the process of capital investment.Certainly French and British capitalists did not employ the same investment criteria.The French almost totally ignored their empire investing instead heavily in Europe and the Middle East with a particular preference in loans and railways.On the other hand the British massively invested in the British empire and the Americas,particularly the North,but paid little attention to investment opportunities in Europe [SIMON(1968)23-27].In their case preference was given to investments in transportation and public works whereas investments in loans were the second best choice.However,regardless of differences in investment attitudes and criteria both groups responded to particular needs.In this context the involvement of foreign capital in the Ottoman loans was a natural outlet for European investors coinciding with the decision of the Ottoman state to tap directly the European money markets.

The Ottoman Imperial Loans.

The Ottoman state realised the advantages of the European capital markets during the early 1850's [for a short account see SUVLA(1966)95-104].The 1854 loan apart,a new loan was raised in 1855.The loan amounted to £T 5.5 million was guaranteed by the British and French governments.Europeans,particularly the British,were only happy to put their money in an operation involving such outstanding guarantors.The increasingly favourable economic and financial environment in Europe in the 1850's allowed the Ottoman state to raise three more loans in Europe.Within a period of six years the Ottoman Debt had reached 315 million fr [DU VELAY(1903)154,DAMIRIS(1915)41].

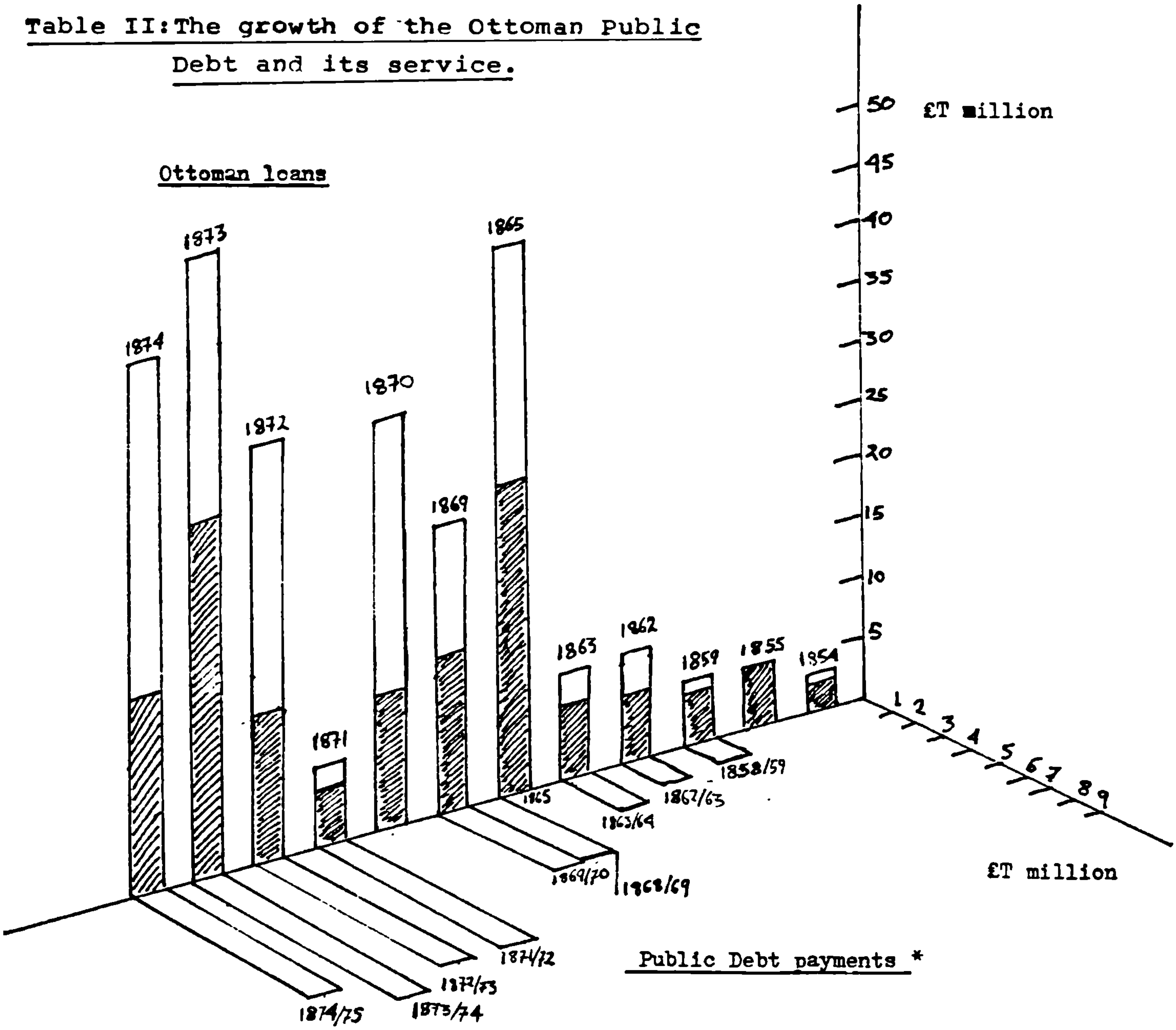
The growth of the Ottoman Public Debt gained new momentum during the 1860's.In this decade the Ottoman state raised six loans whose nominal value was £T 90.410.000.This capital was spent in various sectors.A considerable part was used to sustain the cost of administration and particularly the payment of salaries and arrears.The 1862 loan was entirely devoted to the withdrawal of paper money circulation.Previous attempts to withdraw this currency had failed [DU VELAY(1903)264,DAMIRIS(1915)20-30].In addition,a substantial part of military expenditure was covered by these loans.The purchase of military equipment and provisions apart,the entire 1869 loan of approximately £ T 24 million was spent to offset the expenditure caused by the Cretan insurrection(1866-1868) [DU VELAY(1903)264].One must emphasise,however,the 1865 loan which marked a turning point in the history of the Ottoman Public Debt.In 1865 the Ottoman government decided to proceed with the conversion of its internal Debt [DU VELAY(1903)269-275,POULGY(1915)32].A loan of 909 million fr(=£T 44 million)was issued by the Societe Generale of Paris and the General Credit of London:625 million fr were spent on the conversion and the remainder were left with the government for its current needs [BAILLEUX DE MERISY(1874)651].The 1865 loan was the largest one raised till then.As a result the Ottoman debt more than doubled.This growth produced a sudden shift in Ottoman finances.The annual burden of the Ottoman Debt increased by £ 1.300.000,an expenditure equal to that of the Ministry of Interior.From 1865 onwards the payments of the Ottoman debt almost doubled.There is evidence to believe that this burden was,at least in part,responsible for further borrowing.In addition the largest part of the loan was placed on,and absorbed by,the European money markets.As a consequence a considerable part of the Ottoman Internal Debt was transferred into the hands of foreign investors.This development considerably increased both the financial and political influence of the groups of European capitalists (see also below,140].

The Ottoman state continued borrowing during the 1870's.Not surprisingly the bulk of these loans was used to pay budgetary deficits caused by the Debt itself.For example,the 1871 loan guaranteed by an increase in the Egyptian Tribute was spent entirely on budget deficits.The 1872 loan(Treasury bonds) was spent on the conversion of part of the General Debt.The proceeds of the 1873 loan were destined to pay off the floating Debt,the most difficult item of expenditure to deal with.The last loan of the period under consideration was issued in 1874.Again it was devoted to pay the interest of the Public Debt [DU VELAY(1903)313-315,POULGY(1915)62].The only loan of the period not raised to pay interest on the Public Debt or to cover budget deficits was issued in 1870.This loan was supposed to fund the Oriental railway project of Baron Hirsh [POULGY(1915)57-59].

Thus in a period of approximately twenty years the Ottoman state had borrowed an amount equal to £T 241.632.000.As a consequence the burden of the Public Debt payments in total expenditure increased substantially.The existing figures suggest that from £2.061.216,or 14.5% of the total expenditure,in 1865 these payments jumped to £ 7.520.365,or 37.5,in 1874/75(see Table II,25a,see also chapter II,57).Due to this large,indeed almost insupportable burden,the Ottoman state suspended the payments of its Public Debt in October 1875.This radical measure put an end,if temporarily,to the further growth of the Ottoman Debt.It was accompanied,however,by a rather undesirable developmemt.Not only did European investors massively protest against the suspension of payments,but they also eschewed investing in Turkey,thus excluding the Ottoman state from the European money markets.

However,one might wonder at the reason why European investors put their money in the Ottoman loans in the first place.True,the financial environment in Europe favoured investments in foreign loans.Yet,the Ottoman empire was a country with special problems.In the era of the highest nationalist aspirations the Empire's political future was unpredictable,to say the least.In addition,the Ottoman state,corrupt and ineffective by Western European standards,had a long tradition of maladministration and extravagance.Would it not be risky for European investors to undertake such a large financial operation as was the case in the Ottoman loans?As has already been mentioned the impetus towards foreign investments was irresistible.However,two further points should be emphasised.Firstly the European governments,and the British in particular,encouraged investments in the Ottoman empire.Without underestimating the political and financial problems several highly placed officials insisted on arguing that

Table II: The growth of the Ottoman Public Debt and its service.



Gross sum obtained

* payments on the floating and internal debts are not included.

there was nothing essentially wrong with Ottoman finances.They favoured the introduction of financial reforms in Turkey claiming that these reforms would sweep away maladministration and increase Public revenue (7).

In addition,a number of Near Eastern specialists dwelled on the wealth of the Empire in terms of natural resources and incited European capitalists to invest there on the grounds of unexpectedly high returns [FARLEY(1862) and (1866),UBICINI(1856),BIANCONI(1878)].This argument implied that growth in production and trade would increase Public wealth and raise Public revenues accordingly.The introduction of Tanzimat reforms backed these arguments.In fact Turkey was presented as a country with enormous,if undeveloped,resources whose political leadership had at last opted for a large scale modernisation.Certainly these arguments did not remain unchallenged in Europe.It seems,however,that Turkey's new appealing image soothed the anxieties of many Europeans encouraging them to invest.Nevertheless these authorities did not advise investments in loans.On the contrary the emphasis was placed on the productive sectors.In the event,however,investors usually ignored productive investments and preferred the much more lucrative Ottoman loans.

Predictably capital flows where it receives the highest returns.To this extent European investors were mostly seduced by the actual terms of the Ottoman loans rather than by Turkey's unlimited resources.The general trend to invest abroad met the specific requirements of a profitable investment.Undoubtedly the Ottoman loans presented investors with highly remunerative terms.The interest rate on most of these loans varied between 5 and 9 per cent -double the interest prevalent in Europe at the time.In addition most of these loans were issued at an extremely low price.The average issue price for all sixteen loans contracted in the period 1854-1874 was only 67.3.Moreover,one should emphasise the fact that,year after year,the issue price of Ottoman loans declined.For example the average price of the loans raised during the 1850's was 85.3 whereas the average price of the loans raised during the 1860's and 1870's was 60.5 and 59.2 respectively[See Table I].One could reasonably assume that such terms promised very satisfactory returns-a prospect which did not pass unnoticed among European investors.

Nevertheless the low level of issue prices was to be expected.The Ottoman state's difficulty in paying the coupons of its Debt had regularly shaken the solvency of the Empire.In fact low issue prices gradually became the indispensible term for raising a loan in Europe.The lower the issue price was the better the prospects of the loan.However the long term implications of low issue prices inevitably were negative.Although in the short term a low price could encourage investors,in the long term the Ottoman debt increased disproportionately.In the event the Ottoman state received much less than it actually had to pay back:of a total nominal amount borrowed in the period 1854-1874 of approximately £T 244 million the Ottoman state received only £T 127 million.Yet interest had to be paid on the nominal rather than the actual amount and consequently the service of the Public Debt swelled rapidly and was soon beyond control.

Certainly the Ottoman insolvency in 1875 was not a unique phenomenon.The burden of Public debt led to bankruptcy other states as well such as Spain,Egypt,and some of the Latin American Republics [JENKS(1971)291-93].These developments highlighted the functions of the European money markets.Not because some states were led to bankruptcy through increasing borrowing:this side effect was,at least in so far as European investors were concerned unintentional and unplanned.State insolvencies were only partly the result of foreign lending and usually other factors were equally important.European money markets,however,eventually assumed an important role in the establishment of the new world economy.This economy was more sophisticated and complex than that of the 17th and 18th centuries.It was based on new balances and on a new division of labour on a world scale.The European money markets strengthened the interrelations and dependencies between Europe and the rest of the world and in this sense they profoundly affected the structure of non-European economies.European predominance soon led to the introduction of European financial institutions,and of banks in particular,to other countries.These new institutions became an important outlet for European investments and provided major links with the European money markets.

In this era of increasing and rapid economic integration the introduction of similar institutions in the Ottoman empire was only a matter of time.During the 1860's two banks were established in Con/ple by European capital;the Ottoman Imperial Bank;and the Credit General Ottoman.Not only did these institutions involve substantial amounts of foreign capital,but they also proved of fundamental importance in the growth of the Ottoman Debt.The Imperial Bank,by far the most important establishment founded by foreign capital,was created in 1863.It was the result of a successful combination of French and British banks,bankers and financiers.

After some unsuccessful attempts to establish a State Bank and,in particular,after the 1861 finacial crisis,the Ottoman State,at the urging of two outstanding figures of the Tanzimat Period Ali and Fuad pashas,was desperately seeking for a new consortium to undertake the task of establishing a Bank on the model of the Bank of England or the Banque de France [BILLIOTI(1909)27].The financial environment in Europe was more favourable than ever.The task in Turkey looked promising.In the event various groups were involved in the foundation of the new bank;the group of the French and Spanish Credit Mobilier;the group of the London based Ottoman Bank(8) along with individual capitalists such as Baron Seiler and P Hottinger were among the most important.The nominal capital of the bank was fixed at £ 2.700.000 divided into 135.000 shares [YOUNG(1906)32].In 1865 it was raised at £ 4050.000.The convention of 4 February 1863 gave the bank considerable powers.The bank was responsible for collecting on behalf of the Treasury all revenues in Con/ple and for paying all Treasury orders in the same city.With this quality of "l'encaisseur et le payer de l'Etat" it was in a position to influence the conduct of Ottoman finances.In addition the bank was granted a note-issuing privilege which,surprisingly enough it used in a rather limited way [BILLIOTI(1909)155,ISSAWI(1980)340].For its part,the Imperial Bank was obliged to credit the government annually with £ 500.000 at 6%.Moreover the bank was charged with the opening of branches in several provincial cities.

However,the groups which negotiated the agreement with the government succeeded in securing the Bank's independence vis-a-vis the state.True,the government reserved the right to supervise the bank's activities by appointing a commissioner.But the latter was not in a position to influence,let alone to change,the decisions of the managerial committee.Needles to say,the Con/ple committee of the bank was responsible only for the administration of business.The centre of decisions rested with the Paris and London committees which were entirely responsible for the bank's policy [THOBIE(1977)84].Vested with these powers the Imperial Bank made a remarkable start by issuing the 1863 and 1864 loans.Its position,however,was soon challenged by other rival banks;the Comptoir d'Escompte and the Societe Generale,both based in Paris.The Comptoir d'escompte was firstly involved in Ottoman finances in the late 1860's when it raised the 1869 loans.Yet,the Comptoir d'Escompte's first operation in Turkey was also its last.

Conversely the Societe Generale proved a much more stubborn rival.This bank entered the scene in the mid 1860's when,with the assistance of the London based General Credit,issued the 1865 loan(General Debt).To a large extent the Societe Generale's involvement in the Ottoman finances was part of the conflict between the Rothschild banking dynasty,who had founded the bank,and the Credit Mobilier,co-founder of the Imperial Bank.The latter strongly protested that the government's cooperation with the Societe Generale was an infringement of the 1863 Convention [BILLIOTI(1909)42].But in vain.The Ottoman government was not of the same opinion.Yet this was not all.Not only did the Societe Generale continue in having a great interest in Ottoman finances but it also founded its own bank in Con/ple [THOBIE(1977)89-92].Having secured the cooperation of some of the local bankers,particularly among the Armenians,the Societe Generale promptly proceeded with its plans .The new bank,the Credit General Ottoman was founded in February 1869 with a capital of £ 2.000.000 divided into 100.000 shares [DU VELAY(1903)201-202].According to its statute the Credit General would participate in a variety of activities including commercial banking and even tax farming [NEOLOGOS,22/8/1869].However,far the most important activity of the bank was its engagement in the Ottoman loans.Alongside the Societe Generale and ,occasionally,some of the local establishments in Con/ple the Credit General issued three loans between 1870 and 1873 amounting to £T 48 million.

During these years the Imperial Bank kept a low profile.Presumably as a measure of protest the bank did not participate in any of the loans issued by the Credit General.On the other hand,the government continued doing business with the Credit General and did nothing to soothe the anxieties of the Ottoman Bank.But in 1873-74,owing to a series of financial crises,the prices of Ottoman bonds collapsed and with them the solvency of the Ottoman state together with the position of the Credit General.Only then did the government turn to the Imperial Bank for assistance.It was given assistance,but at a price.

On 18 May 1874 an agreement was signed between Sadyk pasha,the Finance Minister,and the Imperial Bank.The agreement which received the Cabinet's approval only in August 1874,provided for an increase in the bank's capital as well as its merger with the Banque Austro-Ottomane [BILLIOTI(1909)46].On 18 February 1875 the new deal was officially proclaimed in Con/ple with an Imperial firman.The bank's capital was increased to £ 10 million divided into 500.000 shares [YOUNG(1906)38 see also BRUNSWIK(1875)9-10].The capital increase,however,was nothing compared to the new privileges with which the bank was endowed.According to the decree the bank would become the state's general payer and collector.The government engaged itself in putting all its revenues into the bank's coffers.In its turn the

Imperial Bank was obliged to make all the necessary payments on a national scale.Thus the limited privilege of collecting revenues and paying orders in Con/ple was extended to the whole of the country.The bank was also entrusted with the conduct of the Public debt and the coupon payments.The statutory credit to the government increased from £500.000 to £700.000.However the most important privilege ceded to the bank was contained in article 15 of the convention.According to this the bank would become the exclusive agent of the Ottoman State "tant au dehors que au dedans de l'Empire".Although the government would reserve the right to resort elsewhere the Imperial bank "juira d'un droit de préférence a conditions égales sur toutes maisons..et ..pour tout emission par voie d'escompte ou de prise ferme" [YOUNG(1906)40].This clause was the best part of the deal.The bank received a virtual monopoly in contracting loans for the government.

This success was so remarkable that the director of the Bank did not hesitate to describe it,in his annual report for the year 1875,as "unprecedented in the history of financial institutions"[YOUNG(1906)28].Thus,after a period of bitter relations with the government,the Imperial bank succeeded in recovering its leading position and expanding its privileges.It then immediately raised a new loan of £ 40 million.This loan was entirely absorbed through public subscription both in Europe and Turkey mainly because the issue price stood at 43.5.

Summarising,one should emphasise the leading role played by the Imperial Bank and the Credit Ottoman in the process of the Ottoman loans.Despite the outcome of their conflict both establishments proved to be major conduits for foreign capital.Together they issued seven Ottoman loans of a total amount of approximately £T 117 million.The reader should always bear in mind that their activities and financial power considerably affected both the context and scope of banking in Con/ple.

Notes to CHAPTER I.

(1) The formation of the chiftlik economy involved the dispossesion of the peasantry that had been working the land.Chiftlik holders succeeded in controling cultivators in a variety of ways.The peasants' indebtdeness was,perhaps,the most common expedient but there were occasions of open violence as well.In the event,this led to the establishment of share cropping as a result of which the cultivator controlled a considerably smaller part of its harvest than before.

(2) Industry proper was almost non existent.This fact is highlighted by the failure of the state factories.This project was encouraged by the Ottoman state and was connected with the supply of arms and uniforms for the Army.To the existing state industries-a cannon foundry,a musket factory,and a spinning mill-more factories were added.Modern machinery was imported and many technicians were recruited in Europe to guarantee the success of this project.Despite the fact that these factories were provided with a steady customer,namely the Ottoman Army,the project was met with complete failure.The failure was the result of a variety of reasons including lack of managerial experience,administrative abuses and government interference.In most of these factories production was soon discontinued.In the late 1850's only a few of them were still in operation.The failure of the project was so conspicuous that it hardly deserves the name of the "Ottoman industrial revolution" [CLARK(1974)on this subject see also SARC(1966)55-56,OWEN(1981)62-63,AREN(1983)].

(3) Nevertheless,the economic changes of those countries of the

European periphery,and among them the Ottoman empire,were by no means restricted.The demand of European markets continued to provide motives for development,particularly in the agricultural sector [for the development of this argument see BEREND and RANKI(1982)7-27].

(4) Nicolaides rightly points out that "the lawmaker avoids the use of words such as sale,salesman,buyer using instead the words firag(renunciation),tefviz(concession),mefrugun(separation),because e it is not the property of the land which is transferred but its usufruct.

(5) Investment in railways during the period under discussion was limited.True,a few lines were constructed during the 1860's and early 1870's in European Turkey and the Western part of Asia Minor.Yet,in 1881 Turkey possessed a very limited railway system.It was only after that year that railways construction received more attention.During the late 1870's European constructors succeeded in getting railway concessions,a process which intensified in the following decades.Construction of lines such as the Bagdad and Hedjaz Railways or the Chemins des fer Orientaux added thousands of kilometres to the Ottoman railway system [BORN(1982)146-159,HERSHLAG(1964)49-54,MORAWITZ(1902)373-411].In 1914 the empire possessed 5.252 km of railway lines.This number,however,was rather low in comparison to the lines possesed by Western European states.It is estimated that in a period of approximately thirty five years more than a billion fr were put in railways [ISSAWI(1980)148-149].

(6) The reader should not be confused by the total number of £ T 175 million which Mercret uses as a basis of his estimations.Presumably Mercret leaves out of his account the loans guaranteed by the Egyptian Tribute whose holders had negotiated a separate settlement in early 1877.

(7) See for example the Report on the Financial conditions of Turkey by Lord Hobart and M Foster in A&P(1862) LXIV,the Report on Turkish Finance by Lord Hobart in A&P(1863) LXXV,the Report on the Taxation of Turkey by Barron in CR(1870),and the Report on the Turkish budget for the Year 1872-1873 in A&P(1872) LIX.See also DU VELAY(1903) 262.

(8) The Ottoman Bank was founded in 1856 with a capital of £ 500.000 divided into 100.000 shares.The bank had its headquarters in London although it aspired to do business in the Ottoman capital.It was first involved in Ottoman finances in 1856 when it presented a plan for the establishment of a State Bank in the Ottoman empire [See below,Chapt.VI].Yet its first successful operation took place in 1862 when it raised the 1862 Ottoman loan.

CHAPTER II:Ottoman Finances.

As Western economic interests increased,so European ambassadors more and more exercised their influence in financial issues.The preparation of accurate and efficient budgets was among their first priorities.During the same period European holders of Turkish bonds eagerly pressed for financial reforms and the regular service of the Ottoman Public Debt.Budgets would give an accurate picture of the financial position of the Turkish State.The first budget on the European model was published in 1860 (1).During the 1860's budgets continued to be published regularly apart from the years 1865-1868.During the 1870's budgets continued to be prepared except from the years 1870/71,1876/77 and 1878/79.

Yet,many Europeans,who were aware of the financial problems of Turkey had great doubts about the Ottoman State's intentions.The idea that the proclamation of financial reforms and the preparation of budgets in Turkey was nothing but an expedient to soothe the anxieties of European investors,was widely held in Europe, "And here it may be remarked as a peculiar feature connected with Turkish finances...that a budget has never been prepared without being accompanied or immediately followed by a loan."[LAYARD(1869)3-4].Similar views were shared by some of the European diplomats in Con/ple.For example,the French ambassador De Vogue,scrutinizing the Ottoman budget of 1874-75,was led to virtually the same conclusion.According to his viewpoint,financial reforms such as the secularization of the vakoufs and the regie des tabacs,were proclaimed only to facilitate the placement of the 1873 Ottoman loan [letter dated 21/4/1874,in AN F30/356].British diplomats,however,held a more favourable opinion with regard to the future of the Ottoman finances.This traditional,so to speak,policy of encouraging the Ottoman government to introduce financial reforms was followed from the early years of the Tanzimat period.The report prepared by Lord Hobart and M Foster was perhaps the best example of this policy.Always keeping some distance and criticising some of the financial measures adopted by the Porte,and at the same time,always encouraging and inciting the government to introduce more modern methods of financial administration,this was the basis of the British policy towards the Ottoman finances.Not surprisingly Rumbold,the secretary of the British legation argued in his report on the Ottoman budget of the year 1871/72 that, "A deficit which may be reasonably estimated not to exceed a moderate figure...a revenue showing increase...and a reduced expenditure...such are the broad and cheering statements of a budget which hostile critics have unkindly described as made for exportation."[Report by RUMBOLD in A&P(1872)LIX,559].

Apart from such contemporary disputes,however,the modern researcher is faced with other problems.Firstly,the value of Ottoman budgets as a source of examining Ottoman finances is only indicative.Estimation of both revenues and expenditure was based on extremely optimistic considerations.Moreover,there are no available accounts of the effective results.Thus,any analysis of the Ottoman budgets should be undertaken with caution.Yet,as,on the other hand,Ottoman budgets reveal important aspects of Ottoman finances it is necessary that they be examined (2).

The period 1860-75 was marked by constantly growing budgets,both in terms of revenue and expenditure.Some variations which emerged during the early 1860's were only exceptions to the general rule.Conversely,between the years 1876-1881,both revenue and expenditure rapidly declined.Owing to the suspension of payments of the Public debt in 1875,expenditure saw a considerable decrease.Turkey continued to pay interest on her floating debt but not so much as a penny on the External debt.During that later period,however,declining revenues were due to deteriorating economic and political conditions within the country.The war in the Balkan provinces largely affected both production and tax collection.The war with Russia a few years later,had even more disastrous effects.Due to the mobilization of thousands of farmers production was seriously damaged.It is not surprising that tithe receipts fell from 6.374.571 £T in 1875/76 to 4.500.000 £T in 1879/80 [Harrison to Salisbury,29/1/1879 in FO/78 3067].

The effect of Turkey's integration into the European system of peripheral economies,combined with an increase in exports highlighted a more prosperous population.Presumably the Ottoman State,whose finances were based on agriculture,conceived these developments as a new source of taxation and increased estimated revenues accordingly.Yet,estimates were far from reality.From the existing evidence it appears that sharp contradiction between estimates and actual receipts existed throughout the period under discussion.With regard to the optimistic cosiderations of the Ottoman government a British official reported in 1867 that, "Investigation showed that of the £14.589.000 forming the estimated revenue,the Treasury could only count on receiving £ 11.250.000 within the year;consequently the revenue in arrears must amount to £3.000.000 or £3.500.000.Of this amount,only £1.800.000 could be counted on during the ensuing year,and the balance perhaps several years later." [Report by BARRON in CR(1866-67)436].De Vogue,estimated the deficit of the year 1874/75 at 160.000.000 fr,while official estimates showed a deficit of only 10.000.000 fr [letter dated 21/4/1874,in AN F30/356.].

To the Ottoman government's great distress things did not improve in the late 1870's.According to the records of the Ottoman council of Ministers, "expenditure cannot be suspended,while for many reasons,revenue is not fully collected.Apart from that,and as a result of experience it has been proved that only two thirds of estimated revenues are collected during each year;the revenue in arrears rests to be collected during the following years.As during the first semester revenue is extremely inadequate...no chance exists of revenue matching expenditure."[NEOLOGOS,29/4/1880].Nevertheless,despite confusing estimates the increase in revenue is beyond doubt.The available figures,if optimistic,suggest a revenue increase of 73 per cent between 1859/60 and 1874/75.After 1875,however,revenues declined rapidly and by 1880/81 they amounted to only £ 14.687.127 or a 13 per cent increase over the 1859/60 level.

On the other hand,expenditure reached much higher levels than revenue [HERSHLAG(1980)301].What is more important,effective expenses greatly exceeded estimated ones.The service of the Ottoman Public debt,and the cost of administration and military expenses contributed to a swollen expenditure.True,however,that sharp budgetary problems appeared only after the late 1860's,when accumulated debts and increasing Public expenditure produced enormous budgetary deficits.[see TableI,II].Estimated expenditure almost doubled,while extraordinary budgets became common during the 1870's.In a period of ten years(1871-81),accumulated deficits reached almost £T 40 million (see Table I).

However,there is evidence to support the view that the financial position of the Ottoman state was more onerous than it looks at first sight;a large part of each year's expenditure was usually omitted.The Council of Ministers,which was responsible for the preparation of budgets,decided the annual allowance for each Department.Then the Treasury provided the Departments with credit in the form of monthly instalments [Report by HOBART and FOSTER in A&P(1862)LXIV,498].Apart from the sums originally allotted to them by the Treasury,all Departments were allowed to issue State obligations without any restriction (3).In this way,any effective estimate of public expenditure was impossible.It is true that these obligations were incorporated into the floating debt,the service of which was assured by certain public revenues.Yet,obligations were usually issued after budgets had been prepared and published.Thus,although budgets were supposed to be restrictive in the event effective expenditure far exceeded estimated expenditure.In addition,Departments issued obligations without informing the Treasury about their number or expiring date.Consequently,the Treasury faced enormous difficulties in dealing with such liabilities in subsequent years.Not surprisingly a committee of local bankers to which the 1875 budget was presented for inspection emphasized that, "Regular service[of other items]is destabilized by the service of the floating debt...This debt was created by the previous years' deficits and the interest these deficits bear;only their liquidation will restore public credit and establish the economic balance....A large part of this debt consists of the expenses of different Departments,which exceed their budgets .Such practices have led to a swollen floating debt...The committee believes that extraordinary expenses should not exceed the amount of total revenues."[NEOLOGOS,16/3/1874].

The level of floating debt is perhaps the most important indication of this process.Liquidated in 1865 this debt emerged again during the following years and reached £T 14 million in 1875.The floating debt consisted of short term advances contracted either by the Treasury or by individual Departments.This debt was among the most difficult problems to deal with but,paradoxically,it was also an indication of inadequate expenditure.Undoubtedly,by continuing the issue of State obligations,the Ministries manifested their urgent need for money.Budgetary deficits caused large imbalances and therefore the issuing of obligations was the Departments' main financial outlet.This was particularly the case after 1870,when budgetary deficits increased substantially leaving the Treasury with insufficient amounts of money (see Table II).It is,however,very difficult to say the purpose to which this extra money was devoted.

The increasing financial difficulties of the Ottoman State during the period under discussion were, in the final analysis,expressed through budgetary deficits.In order to cover these deficits,the Ottoman State resorted to foreign and internal borrowing.Even after 1876,when the service of the Public debt was suspended and Turkey could no longer resort to the European money markets,internal borrowing continued.But instead of decreasing deficits,public borrowing only made things worse.On any reckoning,borrowing had disastrous long term implications although it was the only expedient allowing the Treasury to meet its current obligations.Within this vicious circle,Public debt payments and military expenses played the major roles.It is true that certain reforms had been put forward by European and Ottoman advisers.Even as early as 1860 Lord Hobart and Foster suggested concrete measures in order to stabilize expenditure [Report by HOBART and FOSTER op.cit,Report by HOBART in A&P(1863)LXXV,see

Table I :The Ottoman budgets;(in £)

Year	Revenue(est.)	Expenditure(est.)	Balance
1859/60	12.996.624	11.088.583	+ 1.908.042
1860/61	11.382.825	13.414.818	- 2.032.990
1862/63	14.460.798	13.416.237	+ 1.044.561
1863/64	13,496.728	13.360.522	+ 136.206
1864/65	14.589.855	13.676.226	+ 913.629
1868/69	15.415.555	15.309.815	+ 105.760
1869/70	15.110.905	15,567.426	- 456.521
1871/72	17.455.265	20.695.741	- 3.240.480
1872/73	18.761.095	19.458.570	- 697.475
1873/74	19.181.160	23.806.900	- 4.624.840
1874/75	22.552.200	22.849.610	- 297.410
1875/76	21.711.136	26.299.090	- 4.587.954
1877/78	16.318.239	26.769.590(14.757.243)*	-10.451.351
1879/80	12.987.109	14.380.480	- 1.393.371
1880/81	14.687.127	15.490.228(1.917.738)*	- 801.101

*extra-ordinary budgets

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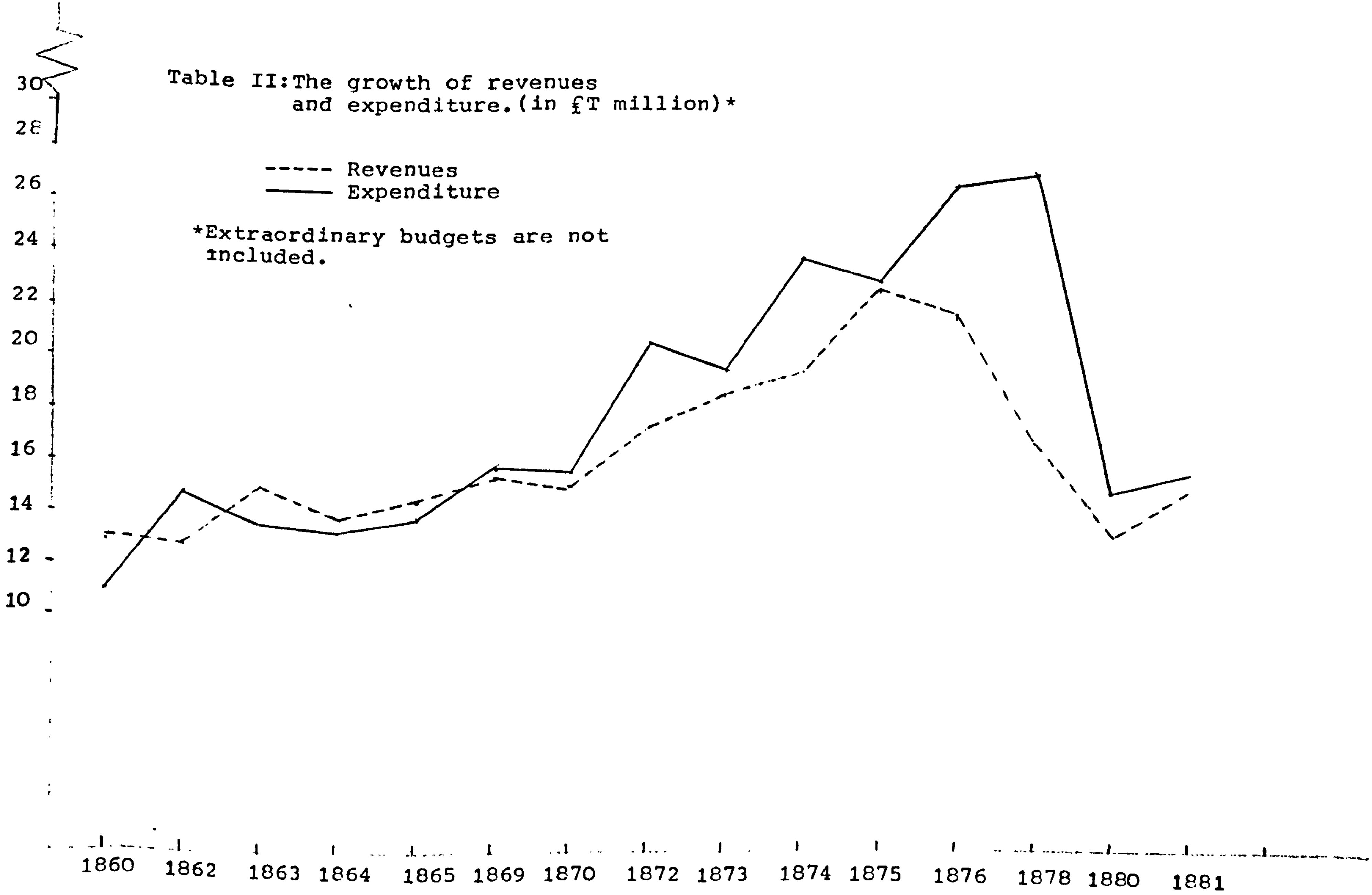


Table II:The growth of revenues and expenditure.(in £T million)*
Revenues
Expenditure
*Extraordinary budgets are not included.
30
28
26
24
22
20
18
16
14
12
10
1860
1862
1863
1864
1865
1869
1870
1872
1873
1874
1875
1876
1878
1880
1881

also HERSHLAG(1980)300-301].Eminent bankers in Con/ple were in favour of steps which would improve Public revenues and decrease expenditure [NEOLOGOS,16/3/1874].Members of the Ottoman administration were also aware of the financial predicament and urged the government to impose effective policies [NEOLOGOS,24/10/1879].True also,that European,and British in particular,pressure was to a certain extent fruitful.Yet,all these produced only marginal results,and the budgetary deficits continued to highlight the precarious position of Ottoman finances.

Revenues on the other hand,if increased could not match expenditure.Throughout the period under discussion the Ottoman State faced a continuous financial crisis.Inadequate revenues in their turn,derived from the intrinsic and structural problems of the Ottoman economy.Although cash crop cultivation had been developed in some parts of the empire,this alone could not solve the Treasury's problems.Given the context of structural and legislative restrictions the Ottoman economy met its own limits.In so far as modern industrial production was non-existent,and in so far as cities and towns were mainly places of trade and the subsistance economy and traditional cultivation were widespread,the Treasury could only receive inadequate revenues.In addition to the structural features of the Ottoman economy,the traditional and narrow-minded economic policy of the Ottoman State contributed to its own financial deadlocks;the tax collection system and heavy agricultural taxation might be compatible with the short term fiscal necessities of the Treasury,but they considerably damaged the economy.Within this vicious circle,budgetary deficits were the only transparent indication that something had gone wrong.

Revenues.

In a country like Turkey where agriculture was the most fundamental economic activity,taxes in the agricultural sector provided the state with the bulk of its revenues.The fact,however,that agricultural taxation,as such,was at the centre of the Ottoman economic mentality should be emphasised.Since the early years of the Empire agricultural product and its distribution had been the key function of the Ottoman redistributive mechanisms [SUNAR(1980)552-555].Particularly after the check of Ottoman territorial expansion,agricultural producuction became the fiscal basis of the Ottoman State.The distribution of agricultural surplus through the timar system secured the existence of both social order and political power.It is worth stressing that the emergence of local landlords and the subsequent distruction of the timar system was associated with the appropriation of an increasingly larger part of agricultural production [KARPAT(1974)90-93].Therefore,it is not an exaggeration to say that agricultural revenue was in the mind of the Ottoman bureaucracy closely connected with the maintenance of power.Inevitably,the control of agricultural surplus was realized through a number of direct and indirect taxes levied upon the peasantry.Not only the tithe and other taxes directly connected with production,but also taxes such as the haradj,the verghi etc largely affected agricultural populations.Conversely,the urban population was less heavily taxed.Although customs duties,tolls and other indirect urban taxes were a valuable source of revenue,they simply supplemented revenues deriving from the agricultural sector.

The tithe was the single most important tax.A fixed percentage of the land's gross yield usually amounting to 10 per cent,was imposed as a tax on agricultural produce and was collected in cash or in kind [Report by HOBART and Foster in A&P(1862) LXIV 480-483,Report by BARRON in CR (1870)Turkey 183,SHAW(1975)428-429].After 1867 the tithe was raised to 12.5 per cent,an increase from which the Treasury benefitted enormously [Report by RUMBOLD in A&P(1872) LIX 582-583].Increased tithe revenues,however,were not only the result of higher rates.In many aspects higher revenues derived from the growth in production proper.However simple this tax was in concept,it continued to provide the Treasury with ever increasing revenues.Between 1859 and 1878 the tithe alone accounted for 20-35 per cent of the total state revenues (4).The sheep tax was the next most important contribution directly deriving from the agricultural sector.Initially this tax was a kind of tithe imposed on sheep-breeding.One tenth of each flock had to be given annually to the state [UBICINI(1856)II,267].In 1857,a new sheep tax was introduced related more to income than to capital.The new tax varied from province to province.In Adrianople,for example,the tax was raised at 4 per cent while in other provinces the same tax varied from 2.5-3 per cent [Report by BARRON in CR(1870)Turkey,229-230,SHAW(1975)429-430].The sheep tax rate remained unchanged after it was first fixed in 1857.This tax alone accounted for 7-10 per cent of the total revenues on average.

The verghi was Turkey's second most important tax and it represented a kind of property tax [Report by HOBART and FOSTER in A&P(1862) LXIV 478-480,UBICINI(1856)II,267-269].Initially the purpose of the tax was to provide the salaries of local Muktars and Mudirs [Report by BARRON,op cit,199].Before 1845 the verghi was levied after a vague estimate of the population had been carried out by the government.Untill then this tax was imposed on incomes deriving from real estate.After 1845,however,the Ottoman state introduced a new kind of verghi which would be imposed on both real estate and profits.The tax which was imposed on real estate,namely buildings and cultivated land,was set at 0.4 per cent with an additional 4 per cent being added for all rental incomes deriving from such holdings [SHAW(1975)428].The tax was supposed to be based on a cadastral survey carried out by special committees.Thus the government would have known the exact number of holdings after the completion of the cadastre and would have acted accordingly.Yet,the verghi had been fixed long before the syrvey's completion and remained unchanged thereafter.Although special agents employed by the government had been sent to all provinces with the purpose of registering the land,this proces was only partly successful,to say the least.In the first place the registration of cultivated land was never completed.Measuring the land proved difficult for landmarks were based on "hearsay evidence" or"a kind of bird's eye view" [Report by BARRON in CR(1870)Turkey 210-211].In the event,the cadastral survey was successfully carried out only in a few provinces.By and large the registration of holdings was finally confined to buildings while land remained basically unregistered.In addition to the verghi,a similar tax was also imposed on the annual profits of companies and crafts.It was set at 3 per cent in 1860 and was raised to 4 per cent in the late 1870's [SHAW(1975)427].If added together these two taxes accounted for 10-15 per cent of the total revenues.

Customs revenues were another valuable source of income.They usually accounted for 10-12 per cent of the total.The Ottoman Empire was traditionally a country of almost free import trade.

Import duties were relatively low and remained so till 1838 when the first Anglo-Turkish commercial treaty was signed.After that date,three major taxes were imposed on trade.Export duties,amounting to 11 per cent ad valorem,import duties amounting to 5 per cent,and transit duties which were set up at 8 per cent [KOYMEN(1971)48-50,KUTUKOGLOU(1984)57-59].Similar duties had been also accepted by other European countries which signed commercial treaties with Turkey after 1838.In 1860,however,the European Powers consented to a gradual diminution of the export tax to 1 per cent,a process which was finally completed in the late 1860's.They also agreed to an 8 percent increase in import duties [Report by BARRON in CR(1870)233].The commercial Treaties signed,during the early 1860's,between Turkey and its major trading partners,namely Great Britain,France,Austria,Prussia,Belgium,and the United State,ratified these changes[NORADOUNGHIAN(1902)III,130-143,151-162,171-202].However,even under the new agreements,Customs duties and the Custom service in general still faced many problems.Due to the application of separate tariffs Customs duties suffered from a lack of unity.The same goods paid duty by either value or weight according to the country which exported them [Report by BARRON(1870)234].Moreover,it should be pointed out that the collection of Customs duties faced serious problems.Import export trade in particular,involved tax evasion.The extent of such practices was widespread and in most cases Customs officials were involved.The uncovering in the mid 1870's of an extensive tax evasion network including many highly placed officials was by no means an isolated incident[Report of Inspector Homberg dated 31/1/1876,13 in AN F30/356].In fact every single import or export transaction was negotiable,and both local and European merchants,with the connivance of customs officials,made handsome profits at the expense of the Treasury [SYNGROS(1908)II,6-9].The amount of money lost to the Treasury by such practices cannot be estimated.But Customs duties were the only regular revenue and undoubdetly the Treasury suffered from tax evasion and other malpractices in import-export trade.

Transit duties created more problems than those they were supposed to solve.In the first place local officials appropriated large part of these duties.In addition transit duties strenghtened the fragmentation of the Ottoman economy by increasing total costs and discouraging exports.The movement of goods within the country was subject to three categories of taxation.An 8 per cent tax was imposed an all commodities,either articles or foodstuffs,transported to a place where a toll service existed.In this way,products were taxed according to whether the city they were destined for was subject to toll control or not.Shipment of commodities,either by sea or river,was also subject to an 8 per cent tax.Therefore,grain prices,for example,substantially increased when their transport involved shipment.Finally,taxes were imposed on industrial activities at a rate of 2-6 per cent.Thus when native crafts happened to import raw materials,such as yarn for example,they paid 5 per cent on import,and then,when the final product was ready,an additional 2-6 per cent on transport[Report of the Finance Minister Sadyk Pasha to the Grand Vizier(undated),AN F30/356,see also UBICINI(1856)II,272-273].To the great relief of local trade and industry transit duties were finally abolished in the early 1870's.

The bedel was a tax paid by those non-Muslims who wanted to avoid military service.A product of the policy of Ottomanism this tax replaced the traditional poll-tax(haradj) levied on the non-Muslim male population.The remaining state revenues were produced by taxes imposed on consumption,mining,documents involved in commercial business,state monopolies and other minor matters [SHAW(1975)434-448].Accordingly,taxes were raised on the consumption of tobacco,spirits,timber,silk,and salt.All mining operations were subjected to taxes according to the ease of extraction.Taxes were also applied to documents involved in commercial business such as stamps and licences,perhaps the only novelty introduced into the Ottoman tax system.

Moreover,taxes were levied by the local authorities according to their financial needs.Sometimes,the rural population was even subjected to a kind of corvee.According to the 1869 road construction regulation for example,the Empire's male rural population between the age of sixteen and sixty,were obliged to work on the construction or repair of roads and bridges for 4 days each year or 20 days every five years [SHAW(1975)432-433].

In a country like Turkey it is very difficult to estimate the exact tax burden upon the population.Nevertheless, it is almost certain that the cultivators' tax burden was much heavier than that of any other taxpaying group [AKTAN(1966)109-113].If both direct and indirect taxes are taken into consideration the farmer contributed the bulk of State income.This contribution usually accounted for 75-80 per cent of the total revenue.Only the tithe and the speep tax alone,if added together accounted for 39.2 per cent of the State's revenues on average.As agriculture,both in terms of resources and manpower,was the fundamental sector of the economy the state's reliance upon it was only natural.Yet,in contrast to the cultivators' fundamental contribution to the State revenues,their benefits from State expenditure were minimal.During the period under discussion direct State expenses in agriculture never exceeded 1 per cent of the total.The Department of Public Works for example never received more than 0.6 per cent of the total expenses.In the same period the Ministry of Trade and Agriculture received something like 0.35 per cent of the total expenditure on average.

It is true that the State some times directly stimulated production .This happened for example during the American Civil war when cultivators were provided with cotton seeds [ISSAWI(1980)236-241].But even this was done in the hope of higher tax returns let alone that it soon petered out.There is reason to believe,however,that that particular attitude towards production was only temporary,while the absence of a transport policy,of agricultural credit,of private property in land etc were permanent aspects of the Ottoman State.True that some of this changed later in the century.But then the impact of the Public Debt administration,which was established in 1881,on the government's policies was enormous.

Urban population was certainly less heavily taxed.Con/ple the largest and wealthiest city of Turkey,was virtually exempted from taxation,owing to its status as an imperial city.In 1879 apart from Custom duties,cash receipts from all other direct and indirect taxes levied upon the city's population yielded a mere 343.430[Harisson to Salisbury,7/5/1879,in FO78/3067].Moreover,those taxes which would have any consequence for the urban population,such as the profit and property taxes,were undoubtedly less heavy than those imposed on the cultivators.Furthermore it seems that the peasants'contribution in comparison with that of the city dwellers had increased disproportionally throughout the 19th century.Indeed,while the revenues derived from the urban population remained unchanged and some even slightly decreased,those deriving from the agriculture had,on the contrary,increased spectacularly.(see Table III).Thus,it would be an exaggeration to say that the Ottoman bureaucracy ever attempted a "shift of tax burden from the land to the urban wealth" [SHAW(1975)421].The Ottoman State continued to rely upon agriculture throughout the period under discussion,and the cost of the Ottoman administration was almost entirely covered by agricultural revenues.

In the second half of the 19th century the state's income was derived from 30 major categories of taxation.Considering that before the 1840's there were at least 90 categories of taxes one might suggest that the Ottoman tax system had changed radically.Indeed these thirty taxes produced a far higher income for the Treasury than the old ones.Some of these taxes were directly collected by the State while others were farmed out.Yet,a closer analysis of the Ottoman tax system reveals that the so called new taxes had great similarities to the old ones.Basic taxes,such as the tithe the profit tax,the Customs duties etc had existed in almost the same form during the previous centuries.The fact that the same taxes provided much lower revenues had more to do with the decentralisation process which occured during the 17th and 18th centuries than with the taxes themselves.

What was apparent,in addition,was that state revenues continued to lack elasticity.As production was subject to weather and other unpredictable factors,the tithe,the single most important source of revenue,was in its turn subject to variations;a harvest failure usually had disastrous results for both the Treasury and the population.For when such a situation arose,the cultivators not only could not pay the tithe but their other taxes as well.Moreover,the very Ottoman tax system itself was full of shortcomings.Its lack of unity was the most striking feature of the system.Methods of collection varied widely according to the territory and the period.Different rates were applied to the same subject,such as the sheep tax for example.And most important of all,taxes were imposed on gross rather than net income,for such a distinction scarcely existed in the Ottoman tax system.Almost every single tax,including the tithe the sheep tax the profit tax etc,was raised on gross income.In addition,most of the taxes were fixed at a particular rate and remained unchanged thereafter,whatever the economic conditions were.

Yet,however ineffective the Ottoman tax system looks by modern standards it was certainly compatible with the long tradition of the Ottoman administration.One should always keep in mind that fiscal priorities were always the basis of Ottoman economic policy.It is unlikely,however,whether the Ottoman state was aware of the damage its fiscal policies inflicted on the economy.

The state's adherence to tax farming illustrates the situation better.Although the system of malikane according to which a tax was farmed out for life had been abolished,the majority of taxes was still farmed out to wealthy persons for a limited period of time of between one and five years [Report by BARRON in CR(1870)183,SHAW(1975)422-423].Taxes were auctioned by the State and farmed out to the highest bidder [NIKOLAIDES(1889)3980-3987].Muslims and non-Muslims were allowed to participate in these auctions so long as they held Ottoman citizenship and were backed by a banker who acted as guarantor [NIKOLAIDES(1889)3980,GIBB and BOWEN(1950)I,23-24].The collection of revenues apart,tax farmers,entitled to a profit of two per cent on their invested money.The amount they paid in order to obtain the right of collection was assessed on the average income which had been received by the State in previous years;usually the basis for assessment was the average for the previous two or five years[ISSAWI(1980)353].

Although tax farming was applied to almost every tax,its detrimental results were more conspicuous in the case of tithe collection.Usually the bidder bought the right to collect the tithe for a whole sanjak or even a vilayet.He then subdivided his bargain and sold it to other tax farmers,who in their turn subdivided their own share and then sold etc.Thus on several occasions tax farmers obtained the right of collecting taxes only from one village.On each of these sales and subsales profits would be made,so that the final amount paid for all these transactions exceeded by many times the price which the State had received from the first bidder.In this way individual profits earned by such dealings were enormous.Presumably,tax farming prices were conditional upon harvest expectations:a rich harvest usually secured high returns and tax farming prices rose accordingly.The Treasury was the first to benefit from such transactions,but in the process,tax farmers increased their earnings as well.Barron the Secretary of the British embassy in Con/ple estimated the Treasury's losses from tax farming as varying between 25-30 per cent of the total revenues [Report by BARRON in CR(1870)184].Yet,tax farming was not always profitable:a harvest failure led many tax farmers to bankrupcty.In such cases the State's damages might be substantial for most tax farmers paid the Treasury back only when they themselves had collected the taxes.

Tax farming however,proved particularly disastrous for the cultivators.Tax farmers collected the tithe according to their own interests and having no long term concern they extracted as much as they could before their contracts expired.Most of the time they imposed higher rates than those legally permitted.Sometimes they even collected the same tax twice in the same period [QUATAERT(1973)32].In 1861 Lord Hobard and M Foster pointed out in their report that, "In the first place the farmer of the tax,having undertaken its collection as a commercial speculation,proceeds by every means in his power to enhance its value at the expense of the poorer class of the cultivators,whose relative position renders it,very difficult if not impossible for them to obtain redress for unjust exactions.Of the expedients resorted to by the farmer with this object,the most usual appears to be that of collusion with the assessors of the tax to overestimate the amount of produce for which the cultivator is liable,the assessors of course,participating in the illicit gain.In the next place,the tax being taken in kind and the cultivator prohibited from selling or even housing his produce until it has been assessed to the dime,it constantly happens that he is prevented for a considerable time from disposing of it;or if bad weather sets in,the grain is subjected to injury from exposure and the whole loss from this cause is made by the tax farmer to fall on the cultivator....In many cases the peasant being unable to obtain money for his present necessities by the sale of his produce,is driven into the hands of usurers,always to his detriment and often to his ruin".[A&P(1862)LXIV, 481].

This assessment was not far from that of the Inspector of the Imperial Bank,Homberg,who fifteen years later reported that "Le gouvernement,afin de se faire valoir cherchent toujour a adjurer les dimes au plus haut prix possible,et se souciant peu de la moralite et souvent meme de la solvabilite de l'adjucataire.Il s'entendent avec les dimier pour pressurer outre mesure les malheureuse populations agricoles.Le dimer assiste de zapties saisit les bijoux de femmes vend a vil prix le betail et jusq'aux instrument aratoires.L'adjudication étant annuelle il n'aura plus de rapport et peu lui importe de...a tout jamais le village qu'il exploite."[letter dated 10/2/1876,in AN F30/356.]

The Ottoman State,always in financial difficulties,preferred the direct and secure income deriving from tax farming to the establishment of a direct collection system.On certain occasions the government introduced direct collection in the hope of higher returns.In fact,tax farming was abandoned for a short period in 1839 and then again in 1853 and in 1861-1866.After 1866,however,tax farming was restored for good and lasted till the end of the Ottoman empire [SHAW(1975)426,ISSAWI(1980)353].Direct collection was preserved only in the Trebizond area [Report by BARRON in CR(1870)190-191].Moreover,the government introduced other variations of tax farming,presumably in an attemt to reduce the tax farmers' abuses.In the Balkan provinces for example,tax farmers were replaced by village representatives [SHAW(1977)99].The results however were poor and it was finally abandoned.Other forms were also introduced but all of them were variations on the same old theme.

It is generally agreed that tax farming was the least efficient system of collecting taxes.It was detrimental not only to the public revenues,but also to the whole of the economy.But from a financial point of view this system had certain advantages for the Treasury;the income derived from tax farming was secure.Apart from the few years when the harvest failed,the Ottoman Treasury succeeded in securing its revenues.And even in cases of harvest failure the state was usually able to recoup its losses by confiscating the tax farmers' properties and belongings [Report by BARRON,op.cit,187-188].Moreover,tax farming relieved the Treasury of the cost of collecting taxes.In the event collection expenses were paid by the cultivators.Had the state introduced direct collection the financial burden would have been enormous.The establishment of an efficient direct collection service would have required an army of salaried functionaries and a great deal of money.

In addition there is evidence to suggest that during the few years of its application,direct collection was generally unsuccessful and that peasants were finally in favour of the old system of tax farming: "Still on the whole the present plan is preferred by the tax payers to the system of direct collection for the following reason.The officials would on their periodical visits be invariably accompanied by a swarm of police and followers,who would not only be fed and lodged as well their horses by the villagers,but would also extort with authority as much as they could possibly wring from the peasant.This is the taxpayer's view of the question,and from previous experience it is not unnatural one,The tax farmer on the other hand posses no official status,but being rather connected with commerce proceeds to his work in a business-like way,and cannot afford to make enemies of the people with whom his business lies."[Report by BARRON in CR(1870)185].

However,it is beyond doubt that,in the long term,direct collection would have been much more beneficial not only to the Treasury but also to the economy as a whole.While tax farming was and continued to be detrimental,direct collection,though its results would have not been immediate,was the only system that

Table III:Public Revenue.(in £)

Description of revenue	1859/60	1860/61	1862/63	1863/64	1864/65	1868/69	1869/70	1871/72	1872/73	1873/74	1874/75	1875/76	1877/78	1879/80	1880/81
	Years														
Tithe 1	2844515		3908615	3713139	[illegible]	5102370	[illegible]	[illegible]	[illegible]	6363635	7954454		5584409		4545454
Sheep tax 2	[illegible]		766512	[illegible]	1005651	1436819	1382918	1818180	1863365	2045453	1977270		1462196		1500000
Verghi	2274320		2849872	2745872	2728841	2760525	2805525	2890170	2960490	2960490	2963370		2770466		2045454
Bedel	476873		543573	545270	549474	580432	580432	610995	597330	597835	757170		770286		418181
Customs	1385438		2546991	2250000	1917000	1797682	1775182	1995820	1995820	2045455	1977270		1226225		1536363
Silk tax															
Spirits tax	311248		1032679	703971	1219560	717741	717741	1020300	748115	1252725	1540085		1247896		909090
Tobacco tax															
Fish tax															
Tapou	55400		189752	112800	112800	100795	100795	113635	477270	454545	681820		383455		181818
Stamps	29909		202469	135000	135000	86225	86225	136360	181820	181820	454454		183192		-
Miscellaneous	813258		1200504	1102000	1102000	591534	510534	1657540	2514945	1954035	2164205		-		754545
TOTAL	12996624	11382825	14460798	13496728	14589885	15415555	15110905	17455265	19438375	19181160	22552200	21711136	16318239	12987109	14687127
% proportion of 1 and 2 in the Total	27.28		32.32	33.39	33.93	42.42	40.98	44.49	44.52	43.8	44		43.1		41.16

SOURCES:A&P 1872,LIX 231-235. A&P 1861,LXIV 1-17.

Baron Report on Turkish Finances(1867) 432-433,and Report on the Taxation(1870) 178-179.

Economist 25 April 1874.Neologos 16 March 1874,24 October 1879,2 April 1880.

Shaw S :The 19th century Ottoman tax reforms and revenue system.in JMES 6 (1975),451-459.

Shaw S:Notes and communications ;in IJMES 9(1978).

could have replaced tax farming and established new relations among the government,cultivators and the economy.Here lies one of the fundamental aspects of the Ottoman State:Its economic policy was conditional upon its own current financial needs.The rest mattered less (5).In so far as tax farming secured high and quick profits the government chose to disregard its effects on the economy.On the other hand,to the extent that direct collection would have involed a heavy financial burden it was not introduced despite its long term advantages over tax farming.When the state attempted to abandon tax farming,it did it only in the hope of higher returns.When that proved a fallacy,tax farming,in whatever form,was restored regardless of the disastrous effects on the economy (6).

In the circumstances,this traditional fiscal policy led to a profound contradiction.The economy,one part of which was under the direct influence of European markets,tended to escape the state's control.In other words it tended to act independently of the state.Conversely,the state conceived the economy as its servant.Thus it was finally both unable and unwilling to deviate from its policies and to provide the economy with a favourable environment.

However,it should be emphasised that these features of the Ottoman State would have been treated differently if they had occured in a contemporary Western State.The adherence to tax farming,the State's preservation of land ownership,and the efforts at controlling almost every aspect of the society should be attributed to the ideological,political and social heritage of the Ottoman State.In many aspects,the Ottoman bureaucracy was reluctant,if not incompetent,to understand and approve many Western approaches to the economy.This strong ideological heritage

Expenditure:

Throughout the period under consideration Turkish expenditure was mainly connected with defence,civil administration and the service of the Public Debt.Initially the majority of expenses were devoted to the Ministries of War,Marine and the Interior,as well as to the Civil list(see Table IV).The remainder was absorbed by the other items of expenditure.In the late 1850's and early 1860's Public Debt payments were relatively small.Due to increasing state borrowing,these payments soon exceeded the other items of expenditure in importance.These payments included the interest and sinking fund(annuities) of the loans raised abroad as well as the interest on the internal debt.During the late 1860's and mid 1870's payments related to the Public Debt reached enormous dimensions.From £ 2.061.016 in 1864 they rose to £ 5.216.783 in 1871.Successive loans after 1870 further increased the financial burden on the Treasury.In a period of fifteen years,Public Debt payments came to be of paramount importance.From a mere £1.577.823 in 1859-60,or 14 per cent of the total expenditure,these payments jumped to £9.028.404 in 1874-75 and accounted for 39 per cent of the total(see Table IV).In the period 1860-1881 the Ottoman debt absorbed each year £ 4.028.834 on average.

However,the Ministries of War,Marine and the Interior,together with the Civil list continued to absorb large amounts of money.If added together these four items of expenditure accounted,during the same period,for 49 per cent of the total,an enormous percentage even in comparison with payments related to the Public Debt.From 1850's onwards the Ottoman State spent large amounts of money on defence.Military expenditure was divided among strenghtened the state's adherence to policies which by Westen standards were detrimental.Thus,any historical conclusion with regard to the Ottoman economic and social policies,would be meaningless outside the context of this heritage,whose preservation was secured by the Ottoman State itself.

It would be unfair however,not to admit that at least a part of the Ottoman bureaucracy had developed a more advanced economic consciousness.That was true not only during the era of the Public Debt Administration,when signs of a different,however vague,policy towards the economy had been demonstrated but even before.Sadyk Pasha for example,many times Minister of Finances and direct taxes,made a major contribution to the abolition of transit duties during the 1870's (7).Yet,the receptivity of the Ottoman bureaucracy as a whole to economic reform is in doubt.On basic issues,such as the land question or tax farming,for example,the Ottoman state proved more than reluctant to accept any change.

three Departments;the Ministry of War,that of Marine,and the Direction of Artillery.Not surprisingly,the bulk of it was devoted to the Army.It is estimated that the Army's allowance exceeded the combined expenditure of the other two Departments by three to four times.(see Table IV).During the 1850's and 1860's large purchases of military equipment took place:the Army was provided with new field weapons and new types of rifles.In 1874 the value of armaments purchased by the Ottoman government,including Krupp cannons and American rifles,amounted to 100 million fr [De Vogue to the French Foreign Ministry,letter dated 21/4/1874 in AN F30/356].Great attention was also given to fortifications.The fortification of the Straits in particular had eventually been completed in 1880.In addition,fortresses armed with artillery had been erected in many border provinces.The Navy due to the Sultan's personal intervention,was lavishly supplied.By the mid 1870's twenty four new ships,including four ironclads worth £ 400.000 each,had already been purchased by the Ottoman government [OWEN(1981)110,see also SYNGROS(1908)II,180].The construction of a special gunboat fleet for Service in the Danube had also been decided [MELLON,4/July/1876].

However,a great deal of money devoted to the military sector was spent in vain.All the Turkish ironclads lay idly at anchor in Con/ple,always within sight of the Imperial Palace.Smaller but faster warships would,perhaps,have contributed more to the efficiency of the Ottoman Navy.But Abdul Aziz was in favour of ironclads,whose capabilities he admired so much,and undoubtedly the Sultan's personal opinion had a considerable influence on the final decision.In addition,expenses devoted to the modernisation of the Turkish military infrastructure were also spent in an ineffective fashion: "Unfortunately,it is a fact that the large sums of money spent on these Turkish establishments were spent in vain.For instance,the most modern and complicated machinery for setting up a heavy gun factory,has been provided at great cost,but no attempt has been made to establish steam-hammers and other indispensible requisites at all adequate to the work completed.Thus the large factory,practically does not exist:all the heavy ordance is to this day ordered abroad;and it is reckoned that an additional outlay of at least £150.000 would be indispensible to turn to account works that have probably already cost double that amount,and that now lie idle and unprofitable."[Report by Rumbold,A&P:1872,LIX,569].

Naturally,Turkey's weak position vis-a-vis its main enemy,Russia,imposed heavy military expenditure.In the period 1860-1881 this item alone absorbed £4.435.038 On average with a peak in the years 1862/63,1872/73 and 1878/79.Yet,although military expenses in cardinal numbers were subjected only to slight flunctuations their proportion to the total expenditure had considerably declined,mainly due to the enormous increase of Public expenditure.From 42.5 per cent of total expenditure in 1862,military expenditure fell to 31.5 per cent of the total in 1865 and to 25 per cent in 1874.

Expenses devoted to the Ministry of the Interior were also important.Even after its separation from the Grand Vezirate in 1869,this Department was responsible for the local and provincial administration and for the police [SHAW(1977)71-72].The Department's expenses covered the cost of internal administration;the salaries of both the lower and higher echelons of the staff accounted for a large part of the Ministry's total expenses.The expenditure of that Department underwent a relatively large increase.From £1.524.029 in 1860,the Department's expenditure rose to £2.081.256 in 1873 and to £2.320.304 in 1878.However after that year it rapidly decreased.In the period 1860-81,due to the increase in Public expenditure the Department's proportion to the total expenditure had also declined.From 13 per cent of total expenditure in 1860,the percentage devoted to the Ministry of the Interior fell to 9.7 in 1878.

The Civil List was the forth most important item of expenditure.It covered the dotations of the Sultan,the Valide Sultana,Princess and Princesses of the Royal House,the members of the Imperial family,and the pensions of the Palace's old servants.In fact there was an army of the Sovereign's servants whose salaries also derived from the Civil List.Most of them participated in the Palace's everyday life,but for purely honorary services they provided received disproportionaly high rewards.In a long list provided by A Ubicini one could find people such as the Keeper of the Crown Jewels,the Chief Officer of the Privy Chamber,a rather pompous title for a doorkeeper,the Grand Master of the Wardrobe,the Chief Keeper of relics etc,who were lavisly paid for doing almost nothing [UBICINI(1856)II,288-290].

With regard to the Palace's expenses the Greek newspaper Mellon reported in 1874 that: "A rather quaint report has been published in Con/ple containing details of the Sultan's spending.A sum of £T1.135.000 is devoted to the leader of the faithful each year.Yet,it is known...that sums much larger than the above amount are spent by his Highness the Sultan in order to preserve Imperial prestige.The number of servants paid by the Imperial Treasury exceeds 6000 males including 350 boatmen,400 cooks,300 gardeners,600 coachmen,600 black eunuchs and 600 butlers.Moreover some 1000 girls,or female slaves are also included,although there is evidence to believe that their real number far exceeds the official one.Food and shelter are provided for all these people.It has been estimated that at least an equal number of people,who in fact are the servants'servants,are also provided with food although they do not receive salaries.In addition,thanks to the widespread view of the Sultan as the light of Islam,and the father of the people,beggars and poor people who live around the Palace in great numbers are also provided with food.Each day no less than 1200 sheep and 2.000 hens are delivered to the Palace by special contractors.A sum of 60.000 fr is spent each month to buy wax candles.In addition,a whole army of acrobats,jugglers,musicians etc are employed by the Palace.Many cattle breeding and rare birds are also kept inside the Palace and each day new collecctions are added,thus resulting in an enormous outlay.This year the Sultan enjoys buying Japanese pottery.Five white and five azure vases have been bought lately to the tune of 125000 frs.Members of the Imperial family and many ex-ministers are also paid by the Imperial Treasury."[MELLON 19/10/1874].

In the period 1860-1881 the Civil List absorbed £ 1.069.528 on average.Judging from the available figures it seems that the amount devoted to the Sultan's personal income decreased.Yet,there is reason to believe that expenses which ought to be paid by the Civil List were acctually included in other Departments' expenditure.Lord Hobart in his report on the Ottoman finances had pointed out such "informal" payments adding that"The Civil List...large as it is,does not include the whole of the allowance for the Imperial establishment."[Report by HOBART and FOSTER in A&P(1862)LXIV 494].Apparently,part of the Sultan's allowance continued burdening the expenditure of other Departments throughout the period under discussion.As other Departments' expenses were less subjected to European criticism than the Civil

List,it is possible that their accounts were burdened with part of the Sultan's expenses.In this way,both the Sultan and the European ambassadors were satisfied;the former could spend more than he was formally allowed,while the latter thought their efforts for budget cuts fruitful.After all the budgets themselves were subject to the Sultan's personal approval.

The Ministry of Finance was next in the line in terms of expenditure.Responsible for the Empire's financial administration in a period when Ottoman finances faced enormous difficulties,this Department was of crucial importance.In the period 1860-81 the expenses of this Department averaged £852.120.Yet it seems that the Ministry of Finance was charged with expenses which finally benefitted other Departments.Lord Hobart had pointed out in the same report,that apart from the purchase of meat made on behalf of thr Palace,the Ministry was also charged with repairs of forts,rations supplied to the Army,works on the mouth of Danube etc.

These five items absorbed 75 per cent of the total expenditure on average.The remainder was divided among the other Departments.Not unfairly,this percentage was extremely inadequate.Departments such as the Ministry of Public works,the Ministry of Trade and Agriculture,the Ministry of Public Instruction,whose contribution to the economy and society could have been of great value,never received more than £ 100.000 per year (8).And that was the highest allowance each of these Departments ever received.In fact the structure of Public expenditure remained almost unchanged throughout the period under discussion.Any shift or redistribution in expenditure concerned only the major five items.The Army and Civil administration dominated the expenditure in the late 1850's and early

1860's.Thenceforth,due to their low increase relatively to total expenditure their weight declined.In the long term,however,military expenses alone exceeded on average terms every single item despite the fact that after 1870 Public debt payments absorbed considerably higher amounts of money.

In addition,between 1860 and 1875,while the total expenditure had almost doubled,the bulk of that increase was absorbed by these five items.From £11.088.500 in 1860 total expenditure reached £22.849.610 in 1874-1875.Yet,the percentage of the five main items remained unchanged.Undoubtedly,increasing Public Debt payments were mainly responsible.In fact,after 1870 these payments reached enormous dimensions and absorbed the bulk of any increase in revenue.However,even if the Public Debt payments had been less heavy,it is unlikely whether the allowance of the remaining items would have increased to an adequate and acceptable level.Had the burden of the Public Debt been less heavy,military expenses would have most probably absorbed this part of the expenditure.

The examination of the structure of expenditure reveals the priorities set up the Ottoman government.Apart from the Public Debt payments,which it was impossible for the Ottoman State to avoid unless it declared itself bankrupt,military expenses and the cost of internal administration emphasised the state's concern of preserving the integrity of the Empire.Once more the economy was neglected.Certainly,in a period when Turkey's integrity was at stake,it was both understandable and legitimate to keep the level of military expenditure high.On the other hand,however, one may assume that inadequate expenses on other sectors indicate a lack of interest.One could argue that military expenditure was too crucial to be cut in favour of any other Department.Yet,the emphasis remained on these five items despite a considerable increase in revenues.

Moreover,it seems that during the same period an enormous waste of money took place.Not only the Sultan and his court but also all highly placed officials were paid extravagantly.These officials received enormous salaries,not only in comparison with the lower echelons of the bureaucracy but also in comparison with contemporary Western standards.It has been estimated that the salaries of senior officials in Turkey were fifty per cent higher than the corresponding salaries in Western European countries [Report by RUMBOLD in A&P(1872)LIX,560].During the 1840's and the 1850's the Grand Vizier's monthly payment was £1000 while the salaries of other Ministers varied from £ 700-800 per month [UBICINI(1856)II,292].Provincial governors received £ 400-500 per month according to their rank.The salaries of other members of the provincial administration varied between £150-300.In 1860 the Minister of War received £16000 per year whereas the Capudan Pasha,the head of the Ministry of Marine,received £13.000 annually [Report by HOBART and FOSTER in A&P(1862)LXIV,494-497].Salaries paid to other senior officials ranged from £3000-8000 per year.Even the heads of smaller Departments received salaries higher than £ 6000.Conversely,emloyees in the lower echelon,such as clerks,received,according to their rank,salaries ranging from £6-60 per year [ibid,495].

Thus,in Departments with small allowances the Minister's salary alone accounted for a large percentage of the total expenditure.In 1861,for example,the Minister of Public Instruction received one fifth of the money devoted to his Department.In fact this situation was common,with the salaries of highly placed officials accounting for a substantial part of the total expenditure of each Department.In this way,most of these

Departments were ineffectual,as not only were their allowances inadequate,but in addition,a large part was devoted to senior officials' salaries.An attempt to cut salaries down in the early 1870's did not have fruitful results (9).As Rumbold pointed out:

"unfortunately,those economies when more closely examined,seem to have been mainly realized by means of a wholesale suppression of many minor posts of the Public civil service,and a great reduction in the salaries of those remaining.Meanwhile the military service has been left untouched and the highest functionaries of the Empire continue in the undisturbed enjoyment of official incomes,which may be fairly said to be out of all proportion to the services rendered by some of them,and to the resources of the State which benefits by these services."[A&P(1872)LIX,560].

Only during the late 1870's,when the Ottoman State was faced with immense financial difficulties,did the salaries of senior officials decrease.In 1880,the Grand Vizier received a mere £T 3000 per year while the annual salary of all Ministers had been set at £T 2550 [NEOLOGOS:28/4/1880].Salaries of the middle echelons of the bureaucracy were considerably lower than in the previous years and most of them ranged from £T 600-800 per year.In the same year: "The Ministry(of Finances)wishes to reduce this year's deficit by decreasing each Department's allowance;yet the heads of all Departments stated that credit was asked only for the most necessary needs and a further decrease in these expenses is considered,so far as they are concerned,impossible."[NEOLOGOS:22/3/1880].

Yet,these cuts had only slightly affected expenditure on other items,and in consequence no major shift towards other sectors of the administration was ever effected.It is not dificult to estimate the deleterious effects of this policy.With the Empire's road system in poor condition,the enormous rate of illiteracy and the absence of proper means of transportation and of any essential assistance towards agriculture,the economy suffered considerably.Yet,due to the priorities of the Ottoman State,as well as its lack of interest in other sectors,the structure of the Turkish budgets remained virtually unchanged.

Table IV: Public Expenditure. (in £)

Description of expenditure	Years 1859/60	1860/61	1862/63	1863/64	1864/65	1868/69	1869/70	1871/72	1872/73	1873/74	1874/75	1875/76	1877/78	1879/80	1880/81
External Debt.	891023	838459	1106865	1582065	2061216	2613370	2513370	5633860	5922935	7131245	5738495	-	9010295	-	1905890
Service of the General Debt. 1	-	-	-	-	-	1627439	1627439	1643880	1643880	1702355	1781870		3769190	3660588	2560644
Various internal bonds,						297634	254784	449545	449310	448600	448600				
floating debt.	686900	1199694	1402689	2048503	2177993	547974	541224	561000	520390	598710	610566		3041877		
Civil List.	1253878	1385639	1110595	1084419	1085400	911516	920831	1825480	1742515	1813195	1809090		975950	987,640	786339
Ministry of War. 2	3401220	4467152	4317548	3725059	2956725	3238024	2929154	3500910	3131870	3775370	3773370		2727272	3181181	4875499
Ministry of Marine.	790801	8?2954	1106514	946607	918929	753305	673596	751330	727270	1136365	909090		750000	581818	737769
Direction of Artillery	145530	291669	194667	171000	600000	450000	676417	456953	434210	909090	818180		727272	872727	783131
Ministry of Finance.	1022348	963459	692244	586953	613620	921618	965216	745900	499750	720160	885740		1258404	794545	1030006
Ministry of the Interior	1524333	1628620	1617930	1585066	1657057	2253951	2351026	2447700	2021255	2443620	2449635		2480890	649499	791483
Minisrty of Education.	22419	22789	-	-	56646	53420	71419	98249	73535	84370	113635		125700	104545	73637
Ministry of Commerce and Agriculture.	-	65,680	16988	17955	21532	48065	53069	70775	59850	80630	80630		22177	-	137852
Ministry of Public Works,		-	48470	42435	56646			87109	67595	79485	103620		24265	52272	93909
Telegrafs and Post Office.	-	-	-	-	-	790695	338063	286645	402260	558945	590365		413727	-	
TOTAL	11088583	13415817	13416237	13360522	13676226	15309815	15567426	20695745	19458570	22806900	22849610	26299090	26769590	14380480	15490228
% proportion of 1 in the total.	14.2	15.9	18.7	27.1	30.9	33.2	32.9	40	43.8	41.5	37.5		59	25.4	28.8
% proportion of 2 in the total.	39.2	42.12	41.8	36.2	32.7	29	27.5	22.7	22	24.4	24		15	32.2	41.2

SOURCES: See Table III, P. 56a

Notes to CHAPTER II.

(1) It seems that a form of budget was prepared in Turkey before that year.Yet,these budgets were of a very primitive sort and strongly resembled a form of general account rather than a budget.[UBICINI(1856)II,284,KARPAT(1977)411].

(2) Technically speaking,Ottoman budgets were defective.For example,the tithe the sheep-tax etc,were,for unknown reasons,classified as indirect taxes [DU VELAY(1903)176-177].In addition,accurate accounts with regard to effective revenues did not exist for the largest part of the period under discussion.Back in 1861 Lord Hobart reported that:"the opportunity that has been afforded us of inspecting the mode of conducting business in the public offices at Con/ple had led to the conclusion that in the Ottoman Empire accounts,as the term is usually understood,can,except in one or two instances,scarcely be said to exist,and that consequently the knowledge upon financial matters is extremely limited."[Report by HOBART and FOSTER in A&P(1862)LXIV,499].Accurate accounts of some sort,had,for the first time,prepared after 1875.A Harrison,who was member of the Financial committee in 1878/79 provides with valuable information with regard to many questions concerning the Ottoman finances.His report are found in the FO78/3067,FO78/3068.

(3) These ogligations were issued under different names-serghis,havales etc-and were used for the payment of purchases or the provision of services.The Department however,by

issuing these orders accepted an obligation without fixed date.The contractor in his turn fixed such a price as would be remunerative at the worst exchange and the most remote date of payment.The result of these transactions contributed significantly to an increase in the debt as unpaid orders were exchanged with debentures of the internal debt,bearing usually high interest.

(4) These calculations are based on the estimated and not the effective revenue and expenditure.All figures have been taken from the available Ottoman budgets.There is evidence to support the view that the effective results hardly matched the estimated ones.These figures however,could give a general idea about the major aspects of Ottoman finances.

(5) In this connection it is not surprising that there was no census for Con/ple.In so far as the city paid virtually no taxes there was no reason whatsoever from the point of view of the Ottoman state to register the city's population and trade.As the British consul reported, "the Turkish government never occupied itself with acquiring information which do not result in some direct and palpable benefits for the Treasury" [A&P(1878) LXXIV,no 74,831].

(6) It could be argued,that although the Ottoman state wished to abolish tax farming,it was either reluctunt or unable to cope with the vested interests connected with tax farming.These vested interests however,were also strongly associated with the Ottoman State.Tax farmers themselves were usually connected with Ottoman officials.Thus,it is most unlikely that the Ottoman State ever

wished,let alone was unable,to abolish tax farming.

(7) The efforts of Ali and Fuad pashas,who succeeded in convincing the European governments to accept more favourable tariffs for Turkey are also worth mentioning.Those efforts however,would hardly been regarded as an important economic innovation with regard to the Ottoman economy,and would rather be connected with the prestige of the administration in a period when Turkey had been accepted as a member of the European system of states.Nevertheless,a more favourable tariff policy had been established,and the Turkish economy,or at least that aspect which was connected with world trade,had benefitted.

(8) The amount devoted to the Ministry of Public Works was inadequate even if one adds to that the expenditure of the Post and Telegraph service,which was under the auspices of the Ministry.

(9) Among other measures to cut expenditure,the government devised a measure according to which monthly salaries would be paid at the end of forty instead of thirty days.Justifying the measure,the government stated that it would ensure punctuality of payments.But it was almost impossible that these measures had any effect as far as high salaries were concerned.Conversely,they certainly affected the lower branches of the administration.In 1872,arrears of salaries had already reached £2,941.150.[Report by RUMBOLD in A&P(1872)Lix,395-396].

CHAPTER III:The Greek commercial community in Constantinople,1850-81.

Throughout the 19th century,Con/ple imported large quantities of foreign commodities.The goods produced in the city could in no way satisfy local demand.Undoubtedly,Western competition,manifested by cheaper products and based upon new forms of industrial organization was responsible for the decline of crafts in those parts of Turkey more tightly linked with Europe.The craft industry in Con/ple rapidly crumbled.The organization of both craft industry and trade in guilds was also affected.The spirit of free trade based on competition and profit,rather than co-operation and "fair" distribution of resources,was spreading among the city's merchants and manufacturers.Particularly for the latter,times were harsh;to compete with European capitalism was almost impossible.The diminution of the city's craft industry had been pointed out at least a decade earlier [UBICINI(1856)II,339-344].Not surprisingly in the late 1860's,manufacturers accounted for only a small proportion of the people who were involved in any form of economic activity [INDICATEUR CONSTANTINOPOLITAIN(1868) see note (1)].

The decline of the craft industry apart,the city enjoyed periods of great prosperity due to both local and transit trade.During the period under consideration a new market based upon free trade principles had already been established.Constantinople remained a principal crossroad between East and West.Each year large quantities of goods and commodities flooded the city's market;grain,wheat and barley from the Black Sea and the Danube region,mohair from Anatolia etc were among the items transported to Constantinople to meet local demand or to be reexported [A&P(1866)LXIX Con/ple,526-27,SYNGROS(1908) I,145-146].In addition European goods,such as cotton,silk,wool,and linen manufactures,colonial products,jewellery,clocks and watches,flour and barley,metal and iron products,coal,bricks etc,were imported to Constantinople in large quantities[A&P(1866)LXIX Con/ple,527].The size of Con/ple's population and the fact that the city was the seat of the Ottoman government largely contributed to the demand for many products.

Not surprisingly,European goods,such as textiles,flour,luxury goods etc,absorbed the largest part of local demand.During the late 1860's the city of Con/ple alone imported goods valued at £10 million [Report by BARRON in CR(1870) Turkey 237-238].Yet,local consumption absorbed only a part of that vast quantity of products;the remaining goods were either traded within or rexported from Turkey.Indeed transit trade with Europe,Russia and Persia,was,perhaps,the most important sector of the city's economy.In addition,extensive commercial transactions were also carried out with the interior of the Empire.Con/ple imported large quantities of foodstuffs and livestock from the adjacent areas.

In the period under discussion, trade activities in Con/ple could be divided into two subperiods.From the early 1850's to the early 1870's local trade flourished and the city remained among the most important centres of transit and general trade.During the Crimean War,when large European armies were based in Constantinople,the city's trade increased considerably.Consumption by troops,gave a sudden and substantial boost to local trade.Syngros ,one of the leading Greek bankers of the 1870's,who,at the time was working in a commercial house pointed out that, "The acquaintance with one of the senior superintendants of the English or the French armies was usually sufficient to lead to a contract for the provision of articles to the European armies;that sufficed to make rich not only the original contractor ,but many subcontractors as well.(....).As an example I will cite two acquaintances of mine......One of them undertook the regular provision of eggs to the English reserve force,and after six months his fortune exceeded 1.000.000fr.As for the second ,by undertaking the cleaning of linen for the French army's hospital,he became after some months the owner of a luxurious yacht." [SYNGROS(1908)I,248-49].

The integration of the Ottoman Empire into the sphere of influence of European capitalism during the late 1850's,accelerated the establishment of closer trade connections with Western countries.Constantinople's role as a transit centre inevitably increased.The city's geographical position greatly contributed to this development.Merchants who traded in such important goods as cereals and mohair had their headquarters in this city [A&P(1878)LXXIV Con/ple,225].Not only could they use the facilities of the city's port,but they also had direct access to the Con/ple money market,the major money market in Turkey.There,the establishment of banking houses greatly facilitated trade,mainly through the circulation of bills of exchange.

A further indication of Con/ple's enlarged trade share in that period is found in the number of English ships entering and clearing its port.

TABLE I:Trade of Con/ple,Steam vessels(Sailing vessels).

Year	Entered	Total tonnage	Cleared	Total tonnage
1861	71(133)	60929(70423)	70(514)	59554(148491)
1862	79(200)	78477(99653)	76(502)	73624(102625)
1863	92(141)	94490(67718)	95(504)	92756(144104)

1864	82(211)	81869(107123)	89(670)	86711(212769)
1870	369(-)	212914(-)	904(-)	367663(-)
1874	408(72)	330471(28534)	59(86)	48214(26645)

Sources:A&P(1869)LXIX,n 69 Con/ple,A&P(1878)LXXIV n 74,Con/ple.

Consequently,Con/ple's influence on Ottoman trade was substantial,and remained so till the mid 1870's.It was during that period of high commercial profits,that the city became famous as a large emporium.

In contrast to the period of great commercial prosperity the trade of Con/ple suffered severe setbacks during the late 1870's.Although no figures are available with regard to the city's import-export trade,it appears that,during that second period,commercial transactions in Con/ple rapidly decreased.The deterioration of trade activities in Con/ple led the British Consul,in his report on the trade and commerce of Con/ple for the year 1878-79 to point out that, "The city's trade is getting into a more hopeless condition and it may now be said that the commerce of this great emporium is rapidly dying out(...)the impression of merchants trading with England was that Con/ple's trade last year was about 20% below that of the previous year" [Report by Wrench for the year 1879,in A&P(1880)LXXV,no 75,Con/ple 1862-63].This discouraging situation was eloquently described a year later in an article in the Levant Herald "L'etat du commerce a Con/ple est pire qu'il n'a jamais été.En realite le commerce de cette grande place est en agonie." [LEVANT HERALD,8/4/1880].

The most common explanation for the causes of Con/ple's declining trade,was the development of transportation [A&P(1883)LXXIV,no 74,Con/ple 1726-27,VALSAMAKI(1874b) in MELLON

26/3/1874].Undoubtedly this was the only factor with long term effects upon the city's trade.The establishment and development of ports such as Smyrna,Salonica,Trabzon and Mersina was mainly due to the introduction of steam navigation to the Levant [ISSAWI(1980)146-48].Certainly these ports were important commercial centres long before the 1850's.In fact their contribution to Ottoman trade dates back to the 18th century when Smyrna and Salonica assumed leading roles in the Ottoman trade [MC GOWAN(1981)29-30].However,it was only during the 1860's onwards that these ports challenged the transit trade of Con/ple.

As a consequence,new zones of trade emerged extending even into remote parts of Turkey.It is true that the development of most of these"rival"ports was based on exports.Yet,European imports in these areas were facilitated by the improvement of port facilities and transportation in general.Better transport facilities allowed a reduction in the prices of European products and contributed to their diffusion within the Ottoman Empire.Hence,European imports in all these ports increased and their consumption spread into Turkey's hinterland.On any reckoning,these ports redefined the existing zones of trade.That development greatly affected one of the two sectors of Con/ple's trade;the transit trade which in its turn affected the city's trade as a whole. As the transportation system was improved and expanded,many local merchants also found it more profitable to use ports with cheaper access to local markets and production areas.Of course,as Con/ple remained a large city in terms of population,local consumption partly counterbalanced the losses caused by the development of other ports.Besides,bad harvests and poor transportation increased the imports of foodstuffs into the city.In this sense,Con/ple continued to be a large emporium.Yet,the city's role as a large transit centre had suffered severe blows.

The decline of transit trade apart,there were other factors which also damaged the trade of Con/ple.The financial crises which broke out during the 1860's and the 1870's,and the instability and insecurity which usually followed them also affected local trade.In addition the circulation of paper money issued by the Ottoman government in 1876 proved to have a fatal influence on trade as a whole and on Con/ple's trade in particular.The territorial losses in Europe which followed the Treaty of Berlin,further damaged the city's transit trade.Direct access to most of the foodstuffs and raw materials produced in Bulgaria and Romania was now lost.Consequently,in the late 1870's the trade of Con/ple was,as the British consul put it,"in a state of inactivity".This disastrous decade which included insurrections in the Balkan provinces,the suspension of payments of the country's Public Debt,famines and poor harvests,a devastating war with Russia and finally substantial territorial losses,had serious repercussions on the trade and the economy of Con/ple.

In addition,Con/ple lost its character as an exclusively commercial centre.Although the city remained an important trading centre,a new form of economic activity emerged;banking.The development of banking in Turkey was undoubtedly centred almost exclusively in Con/ple.New banking houses emerged and capital,realised in commercial activities,was transferred into banking.The development of the Ottoman public debt gave rise to numerous banking activities and maintained a network of bankers,intermediaries,agents,and money changers.The development of banking in Con/ple was so abrupt that some contemporary observers went so far as to say that Con/ple had lost its commercial character by being transformed into a large banking centre [VALSAMAKI(1874b) in MELLON 30/3/1874].Undoubtedly banking activities in Con/ple were of great importance and their implications were felt not only in the city's economy but in the social stratification of the city as well.Almost all of the most important merchants who,until the 1850's had devoted themselves to trade began to shift more into banking.Nevertheless they did not abandon trade entirely.Increasingly however,they transferred their profits from trade to banking .In the late 1860's there were 47 bankers in Con/ple but most of them maintained commercial houses as well.In addition there were 37 money changers.During the early 1870's there was a large network of agents and intermediaries which employed at least 1000 people [VALSAMAKI(1874b) in MELLON 12/4/1874].The development of banking strengthened the city's economy,and from an economic point of view,Con/ple retained its place as the most influential city in the Ottoman Empire.

However,the city's integration into the network of European capitalism had other implications as well.Social life in Con/ple "faced West" and as the city was developed with this orientation,new demands emerged.An important aspect of these developments was the rise of new economic centres within the city itself.From a commercial point of view,the city was divided into three parts;Galata,Pera and Stamboul.The first two became the city's new commercial and economic districts where the bulk of trade took place [KARPAT(1977)421-28].Conversely Stamboul,the old city,lost its commercial importance.More and more commercial,banking and other enterprises were established in Galata and Pera,while Stamboul's commercial development was in a state of stagnation.According to the <u>Indicateur Constantinopolitain</u>,out of a total of 1159 merchants,bankers, manufacturers,people involved in free professions etc,only 222 kept their business premises in Stamboul.The emergence of Pera and Galata as the new dynamic business centre of the city,was also reflected in rents and land prices.During the 1860's and 1870's one pic(=80 cm2) in Pera cost about 200 piastres wheareas on the outskirts of these two districts,the same piece of land cost only 15-20 piastres [KARPAT(1977)422].Not surprisingly the ethnic composition of Galata was predominantly non-Muslim.In 1882,out of the total number of the district's 237.293 inhabitants only 56.280 were Muslims with the rest being,foreign subjects,Greeks Jews and Armenians [ROSENTHAL(1982)370].

An aspect of this new orientation was the establishement of the municipal administration in Galata during the 1860's and the introduction of public amenities in the district [ROSENTHAL(1982)375-82].The improvement of roads,the provision of amenities,the lighting of the district itself helped to rationalize economic relations and give the district a European image [ROSENTHAL(1982)377].Despite the fact that the municipal administration in the event failed to live up to its promises,Galata, throught the last quarter of the 19th century,resembled a European city [ROSENTHAL(1982)373].It is worth stressing that a similar attempt to introduce parallel amenities in Stamboul during the mid 1870's failed to accomplish anything [A&P(1878)LXXIV,no 74,Con/ple 834].

Another factor which affected the city's social and economic character and ,in turn ,was affected by it was population movement.Traditionally the population of Con/ple contained a strong non-Muslim element.Greeks,Armenians,Francolevantines and Jews had lived there,side by side with Muslims,since the fall of

Con/ple to the Turks in 1453.Yet the Muslim element was much more numerous in comparison with any other ethnic or religious group,and the city had a largely Muslim character.During the first decades of the 19th century the composition of the city's population remained much the same as in the previous centuries.Yet,increasing economic relations with the West and the fame of Con/ple as a place where fortunes could be made through trade,dramatically affected the city's ethnic and religious composition.Until the 1840's Muslims largely outnumbered all other religious communities even if the latter were put together [UBICINI(1856)I,24].Forty years later the situation had changed.Although Muslims,in numerical terms,remained the strongest element they were now outnumbered,if all the other communities were added together [SHAW(1979)226,KARPAT(1978)254].The first signs of this process could be traced as early as 1840's.Since then,thousands of foreign and Ottoman subjects had come to settle in Con/ple.It was during that period that the city lost its Muslim identity.Throughout the period under discussion,Con/ple remained a multi-ethnic and cosmopolitan city,and the ascendancy of the Muslim element,still the strongest in numerical terms,upon the city's economy and social life had rapidly declined.

Orthodox Greeks were among those who emigrated to Con/ple in large numbers.Unfortunately,no reliable census is available with regard to the population of Con/ple before 1880.Although two censuses had been prepared by the Ottoman government before that date,one in 1844 and the second in 1857,their results were far from being accurate.In both censuses only the male inhabitants of the city were included.

In addition,no separate registration was conducted for each of the different non Muslim religious and ethnic communities.No doubt,censuses were prepared in a more reliable fashion after 1880 [KARPAT(1978)246-49].Yet,even then,the figures with regard to non-Muslims seem to be inaccurate.For example,according to the census of 1885 the Greek Orthodox population of Con/ple was amounted to 152.742 [SHAW(1979)266].But the number of Greeks living in Con/ple was certainly higher than the figure provided by the Ottoman census.As non-Muslims were not obliged to register with the Ottoman authorities it is possible that a large number of Greeks was omitted [ALEXANDRIS(1983)337-8].Moreover no information is provided by the census with regard to the Greeks who lived and worked in Con/ple on a temporary basis.It is almost certain that these Greeks were not included in the census.Similar objections could be raised with regard to the size of the city's Armenian population.In addition,since many Greeks who lived in Con/ple at the time were citizens of the Greek State,they were classified as foreign subjects.Thus the real size of the Greek population in Con/ple appeared to be much lower in the census.

In contrast to the Ottoman censuses,other sources suggest that the Greek population of Con/ple was much higher.As early as 1844,Ubicini estimated the city's Greek population,non residents included,at 130.000 [UBICINI(1856)I,24 ,see also KYRIAKIDES(1896)I,442].Another source put the number of the Greek population in the early 1870's at 230.000 [SYNVET(1878)8-9].According also to a memorandum prepared in 1878 by the Greek syllogoi(societies) of Con/ple and submitted to the Greek foreign Ministry in the same year,the City's Greek population,the suburbs included,was approximately 287.000 [Tableau statistique de la population Greque et Bulgare en Thrace et

Macedoine,in Memorandum of the Greek syllogoi of Con/ple(1878):Archives of the Greek embassy in Con/ple,in A.Y.E].

Of course,apart from the Greeks who held Ottoman citizenship and were permanent residents of Con/ple,any estimate of the size of the Greek population in Con/ple should take into account the citizens of the Greek State living there,as well as these Greeks who came to the city for commercial and business purposes only but spent a large part of the year there.According to an American source,in 1868 the number of Greek subjects living in Con/ple was as high as 38.000 [ISSAWI(1980)60].And certainly their number increased during the rest of the 19th century.According to the 1885 Ottoman census,there were 130.000 foreign subjects living in Con/ple;no doubt a large part of them were Greek citizens or Greek who had acquired a citizenship other than Greek [SHAW(1977)276].It is worth stressing that in the early 20th century there were 65.000 Greek citizens in Con/ple,let alone those who held other foreign citizenships [ALEXANDRIS(1983)50].Though the figure provided by the Greek syllogoi seems to be exaggerated a number between 200-220.000 appears to be close to reality.Therefore the number of Greeks living and working in Con/ple significantly increased throughout the second half of the 19th century;in a period of thirty years the size of the Greek population almost doubled if the figures provided by Ubicini are to be relied upon.

This demographic trend,however,was not only the result of a high birth rate.Even if there is evidence to support the claim that the birth rate of the Greek population was higher than that of the Muslims [A&P(1878)LXXIV,no 74,Con/ple,832,CLOGG(1982)196],this alone,cannot explain the large increase in the Greek population.The existing evidence suggests that this increase was partly due to a more general trend in the

Greek population,namely emigration to the big cities,especially those located on the Western periphery of Asia Minor.Throughout the second half of the 19th century the Greek urban population largely increased.Smyrna is perhaps the most authentic example of this trend,but the existing evidence suggests that this had happened in almost every major city and town in Asia Minor coast [VALSAMASI(1874b) in MELLON 19/3/1874,TSOUKALAS(1977)288-295,DIETRICH(1918)36-41].During the last decades of the 19th century the Greek urban population grew even in cities where the Greek element had been non existant in previous decades.It is worth stressing that according to the Ottoman census of 1885,more than half of the Greeks living in Con/ple at the time,83.997 out of a total of 152.000,declared a place of birth other than Con/ple [SHAW(1979)266].In addition,many subjects of the Hellenic kingdom, attracted by the hope of better fortune went to settle in Con/ple.

At this point the increasing commercial and economic links between the Ottoman empire and Hellenic kingdom should be emphasised.When the first Ottoman official statistics were published in 1881,Greece held the sixth place,in both imports and exports,out of a total of 21 countries [Report by Wedham CR(1883-84)Turkey 484].Given the unstable and problematic relations of the two states during the period under discussion, this fact is worth stressing.In many respects these links were significantly facilitated by the existence of a strong Greek bourgeoisie in the Ottoman empire.Links between the Greek kingdom and the Greek Orthodox population of Turkey,not only on the commercial and economic but on the cultural level,were considerably strengthened [SVORONOS(1983)60].The same phenomenon is observable between all the Greek communities scattered throughout the Levant and the Greek state.As the social and economic status of these Greek communities was much more important than that of the small kingdom,their influence upon it largely increased [SVORONOS(1983)60-61,PANAGIOTOPOULOS(1980)222-223].Greek subjects,attracted by the economic success of their coreligionists and compatriots emigrated to places such as,Con/ple,Alexandria,Odessa,etc to make their fortune.But during the period under discussion,Con/ple was the city which attracted them most.There was not only the appeal of the old Byzantine capital but mainly the fortunes earned by Greek merchants,bankers,etc which provided strong motives for emigration.A similar trend could be found among Greeks of Macedonia and Western Thrace who,since the early decades of the 19th century had emigrated in large numbers to Con/ple and other major cities of Turkey [VAKALOPOULOS(1977b)80].A particularly strong trend towards emigration to urban areas could also be traced among the Anatolian Greeks [DIETRICH(1918)54-55].In 1924 only one third of the Anatolian Greeks who settled in Greece as a consequence of the Anatolian debacle were farmers.The rest consisted of city dwellers [TSOUKALAS(1977)289].

In this way,the concentration of Greeks in Con/ple was not an isolated example.Conversely,during the period under discussion,the city's Muslim population seems to have remained almost stagnant.According to the incomplete and unreliable Ottoman census of 1844 there were at least 102.000 Muslim male inhabitants in Con/ple at that date.This figure suggests a total number of at least 250.000 if women,who were generally more numerous than men,and the Muslim Bekiars(non residents)are included.In addition,if those Muslims who did not register with the authorities for fear of conscription are also to be taken into account a total number of 300.000 would appear to be close to reality.The figure,provided by Ubicini,of 434.000 Muslims living in Con/ple at the same date,and including 194.000 males,213.000 females and 27.000 bekyars,seems to be exaggerated [UBICINI(1856)I,24].Yet,according to the more reliable Ottoman census of 1886 the city's Muslim population was 384.836.Given the large number of Muslims who emigrated to Con/ple during the late 1870's,this figure suggests that the size of the Muslim population of the City did not experience any spectacular increase.

Moreover it has to be pointed out that the thousands of Muslims who flooded Con/ple during the late 1870's and early 1880's did not emigrate there because they were attracted by the great economic and commercial opportunities available in the city.As nationalism swept Turkey's Balkan provinces,and the national Balkan states became stronger,the Muslims who lived in these areas fled into parts which were still under Ottoman control.The fatal blow for the Muslims living in the Balkan provinces was the Congress of Berlin as a result of which Serbia and Rumania became independent and an autonomous Bulgarian kingdom was established.And when Thessaly and a part of Epirus were ceded to Greece in 1881 the bulk of Muslim population of the province emigrated to the Ottoman Empire [FRANCHET D'ESPERY(1911)87-94].

Thus,a distinction should be made between the Greeks and Muslims who emigrated to Con/ple in the mid and late 19th century.Greeks came to settle and work as merchants or to staff the numerous Greek enterprises which flourished in Con/ple at the time.Muslims on the other hand,found in Con/ple a place where they could be provided with food and shelter by the numerous vakoufs which existed in the city [SHAW(1977)241-242].And as most of them were connected with agriculture and the craft industry they would have found it very difficult to adjust to living in this city where trade and business were its heart.Undoubtedly large numbers of Muslims who came to Con/ple remained jobless and lived in misery with their food provided by vakouf foundations or the government.But even if some Muslims had the money to invest they would obviously have found it very difficult to compete with Greeks,Armenians and Jews whose experience and international contacts gave them a dominant place in the city's commerce and economic activities.

On the other hand,the Greeks who emigrated to Con/ple found things easier than the Muslims.Most of them were absorbed into the vast network of commercial houses,banks,insurance conpanies,agencies,shipping companies etc,which had already been established with Greek capital.It should be emphasized that the Greeks had an influential position in almost every field of economic activity in the city.In a list of more than 1100 names involved in trade,banking,manufacturing,services etc,published in Con/ple in 1868,at least 348,or 30.5 per cent of the total can be readily identified as Greek.Conversely only 43 Muslim names,or 3.6% of the total are found in the list.Muslims were involved almost exclusively in trade and manufacturing and had no presence in services and the free professions. They were concentrated mainly in four professions:the dealers in amber;the keepers of Turkish baths;and the dealers in candles and wax.The names of Muslims occupied in these four professions represented 87% of the total number of Muslims registered in the list.

According to the same list,Greeks were involved in almost every field of trade,in banking,the free professions,and craft industry.It is worth stressing that out of a total of 164 merchants involved in general trade 67 were Greeks.In specialized trade,the Greek presence,however important,was less influential.Out of 240 merchants practising specialized trade only 66 could be identified as Greeks.The Greek presence was very strong in the field of free professions and services,including bankers,lawyers,doctors,innkeepers,cafe owners etc.Out of a total of 346 identified names,112 were Greeks.A similar situation is to be found in manufacturing and craft industry.In this field Greeks accounted for 33 % of the total;112 out of 304 names.No doubt,the Greek presence,especially in banking and the free professions largely increased in the following years.When the list was published,there were only private Greek banking houses and only one major bank established by Greek capital existed.In addition,some Greek bankers who at the time were not well known are not found in the list.For example Syngros,one of the most influential bankers during the 1870's is not even mentioned in the list.

Apart from the professions presented by the list, a large number of Greeks were involved in numerous other economic activities within the city connected with services or small scale trade and manufacturing.Transportation on water for example,was in the hands of kaykchis(boatmen) the majority of whom were Greeks [ROSENTHAL(1982)373].There were also Greeks who lived and worked in Con/ple on a temporary basis.These bekyars(single outsiders) were part of the so called flunctuating population of Con/ple;Muslims and non Muslims alike who came to the city to make some money and who usually returned to their native places after their task was accomplished,only to return to Con/ple when they had again run out of money [UBICINI(1856)I,25].They practiced a large number of temporary occupations,such as hamals(porters),petty sellers,araba drivers,fishermen,water carriers,builders etc [KARPAT(1977)414-415].Unfortunately,very little is known about their numbers.It is only known that during the 1840's their number was around 75.000 [UBICINI(1856)I,25].The number of Greek bekyars at the same date is estimated by Ubicini at 32.000,or 42 % of the total.The respective number of Muslim bekyars was,according to the same source,27.000,while the remaining 16.000 were Armenians.According to another source,the number of bekyars in 1857 was 94.119;two fifths of them were Muslims with the rest being either Greeks or Armenians [KARPAT(1978)254].

It is difficult to speculate as to whether the number of bekyars diminished or not during the following years.As the city expanded demand for the services provided by bekyars should have increased and their number should have risen accordingly.On the other hand the improvement of public amenities from the 1860's onwards,even if they were finally confined in the Galata district,was certainly a blow to the traditional bekyar professions.Yet,new demands created new services and it is beyond doubt that "redundant"bekyars were employed in new and expanding sectors of the city's economy as workers in Public works,and dockyards,waiters in restaurants etc.Under such evidence,and although no figure is availabe for the years after 1857,it is reasonable to assume that many Greeks continued to work in Con/ple on a temporary basis.Besides,the number of Greek bekyars was quite impressive during the 1840's and 1850's,indicating that they moved to Con/ple whenever demand for their services existed.Thus,it is quite likely that most of them found new temporary occupations which,combined with the fact that many of them had retained their traditional occupations,suggests that their number increased.Certainly,similar considerations are valid with regard to the Muslim and Armenian bekyars as well,and it is also likely that their own number had increased.

At any rate,however,the presence of bekyars in Con/ple remained strong.During the first decade of the 20th century,porters and boatmen had successfully organised strikes against the Quay Company in 1908,and a few months later,the same guilds had massively participated in the Boycot of Austrian products [QUATAERT(1983)95-139].

Despite the fact that Greeks were occupied in numerous sectors it was in the field of commerce and banking that they mainly distinguished themselves.It was therefore,these special vocations which gave Greeks fame and prosperity.In comparison with trade and banking,all other professions and occupations practiced by Greeks were relatively insignificant.Besides,the emergence of a Greek stratum working as doctors,lawyers,architects etc was based on a prosperous commercial community.The Greek cultural development which took place after 1850's,was also the result of the increasing prosperity of the Greek community.In the early 1870's there were 105 Greek schools with more than 10.000 pupils,let alone those Greek children who attended lessons in foreign schools [CHRONICO(1871)46-47,SYNVET(1878)10-12].Almost all of the Greek schools were subsidized by the community.Some of them were established by affluent Greeks living in Con/ple or elsewhere.Christaki Zografo effendi,Zarifi,Ralli,Zapa,were among the names most commonly found in lists of donations for the establishment of schools,societies,or benevolent institutions. In addition,many Constantinopolitan youths were sent to study at Athens University at the expense of some of these very prosperous members of the community.

The development of the Greek press in Con/ple was also impressive.By the early 1870's 13 Greek newspapers and magazines were published in Con/ple with a total circulation of 17-18.000 [A&P(1878)LXXIV no.74 Con/ple 832-33,CHRONICO(1871)45,KARPAT(1977)418].It is worth stressing that only one newspaper was published in the Greek language in the 1840's [UBICINI(1856)II,251].No doubt,the development of a Greek educational system in Con/ple,apart from being essential to the community's cultural life,was also of great importance to Greek trade and banking.Although this system derived from the community's prosperous position,it provided in its turn,many competent and educated persons to join the numerous commercial and banking establishments of the city,thus increasing,the Greek influence on the economy of Con/ple.

Given the severe blow which the Greek community received when the Greek War of independence broke out in 1821,its revival,especially after the 1840's,was quite spectacular.When the Greek revolution started the prosperous Greek middle class of Con/ple suffered a severe setback.Most of the Greek merchants living in Con/ple at the time fled to Europe.Many of them asked for foreign protection and only returned to Con/ple when they received foreign passports [UBICINI(1856)II,217-218 see also PEARS(1911)119-121].It is worth stressing that only a few of the most eminent Greek families of Con/ple remained Ottoman subjects.

Moreover,Greek ascendancy in the Porte,exerted until then by the Greek Dragomans,ceased.Thenceforth,only Muslims were employed as dragomans and a special bureau was established to teach young Muslims foreign languages.However,though their influence had been greatly diminished,the Greeks' participation in the higher echelons of the Ottoman administration continued,and by the second half of the 19th century many Greeks were employed by the Ottoman Foreign Ministry and staffed the Ottoman Embassies in Europe [ALEXANDRIS(1980)368-375].Musurus Pasha,a member of an old Phanariot family was the Ottoman ambassador in London for many years.Members of another old Phanariot family,John and Gregory Aristarchi,served for many years as ambassadors in Berlin and Washington respectively.And special mention should be given to Karatheodory Pasha,whose skillful services as Turkey's representative at the Congress of Berlin were so highly appreciated,that he was immediately promoted to be Undersecretary of Foreign affairs.Yet as a whole,the percentage of Greek participation in the Ottoman administration was insignificant.In the early 1880's,out of 23.826 people employed by the Ottoman administration in Con/ple,only 348,or 1.2%, were Greeks [SHAW(1977)244].

Nevertheless,in a period of almost two decades Greeks succeeded in reestablishing their influential position in trade and later in assuming a major role in banking.Many factors seem to be responsible for the revival of the Greek commerce in Con/ple.The introduction of the Ottoman reforms,namely the declaration of equality among all inhabitants of the Empire regardless of ethnic identity or religious belief was very important [SVORONOS(1983)67-68,PANAGIOTOPOULOS(1980)223].No doubt,many aspects of these reforms were controversial,both in terms of legislation proper,and most important,in terms of popular acceptance.It is also beyond doubt that the reforms were more acceptable in large cities,the Western coast of Asia Minor and the Balkan provinces,where the largest part of the non Muslim population lived [SENIOR(1856)159].Not surprisingly,non Muslims accepted the declaration of equality with relief.Conversely,in areas where the Old Turk spirit was particularly strong and the Muslim element the overwhelming majority of the population,Muslim reaction towards the reforms was apprehensive and sometimes contemptuous [INALCIK(1978)4-21].

It has been pointed out,that the non Muslim ecclesiastical leaders responded with scepticism and apprehension as they thought that reforms would undermine their old-established privileges [DAVISON(1966)58-59,CLOGG(1982)195].Yet,equality before the law was certainly welcomed by the non-Muslim populations,especially those who did not enjoy any kind of foreign protection.And although the extent and the influence of reforms in Turkey's hinterland is not yet known in detail,their implementation in Con/ple was by and large satisfactory.The fact that the city was the seat of government and the seat of foreign embassies was certainly responsible for,a more or less,complete application of the reforms.

Moreover,the existence of strong non-Muslim communities was a factor which strengthened the spirit of the reforms.The 1869 millet reform gave new powers to the lay members of the non Muslim communities.The emergence and establishment of lay influence,both in the Greek and the Armenian millets,proved a decisive factor which,at least partly,changed the traditional balances within the non Muslim communities.This happened despite the attempts of some ecclesiastical leaders to undermine them.It must be pointed out ,however,that conflicts between the ecclesiastical and lay members of the Greek millet had started long before.The first blow to the predominance and influence of the Greek clergy was inflicted by lay members of the Greek community who considered the Patriarchate as part of the Ottoman status quo [CLOGG(1982)192,see also ILIOU(1982)].

To a large extent,however,the emergence of lay influence was compatible with the strengthening of the Greek commercial community.One should not go so far as to suggest that this community questioned the leadership proper of the Patriarchate.Although the conflicts which occasionally broke out between lay and ecclesiastical members of the community should not be concealed,it is more proper to suggest that a new balance between them was finally established.Thenceforth,lay leaders such as George Zarifi or Christaki Zografo exerted substantial influence in community affairs.The Ottoman reforms,therefore,provided the Greek minority with a new status and strengthened the lay influence.The political consequences apart,the reforms also contributed to commerce.One should not go so far as to suggest that the development of the non-Muslim commercial communities was based on the reforms.The development of the Greek mercantile community in particular,preceded the era of reforms by many decades.Yet,to the extent that the reforms established a more favourable environment for doing business they allowed a further development of trade.

At this point another factor should be discussed:foreign protection.The emergence and development of a non Muslim mercantile class and the respective decline of its Muslim counterpart is attributed by many historians,to the existence of a network of foreign proteges.This approach implies that lower taxation-a privilege directly deriving from foreign protection-allowed the non Muslim merchants to become more competitive and supersede the Muslim merchants [ISSAWI(1982)273,KARPAT(1977)416].

Indeed an aspect of the capitulatory system in Turkey was the issuing of special titles(berats)to individuals by European embassies [SOUSA(1936)44-46,ANGEL(1901)256].Foreign embassies which initially provided berats to people who worked for them either as interpreters or embassy staff,extended their protection to many others who could pay for it.The price these non Muslims were prepared to pay in order to obtain protection varied according the circumstances,but on any reckoning it was high enough.There is evidence to suggest that in the late 18th century a berat cost 2500-4000 piastres.The provision of berats eventually became a valuable source of revenue.John Angel claims that the French ambassadors received 400.000 fr from this source whereas their English counterparts £ 2000-3000 [ANGEL(1901)257].Sultan Selim III himself was also prepared to offer titles of similar value to anyone who could afford the price but,presumably due to non Muslim distrust,his attempt failed [SHAW(1971)177-179,VAKALOPOULOS(1977a)305].

The most numerous class of proteges consisted of non Muslim merchants who,owing to foreign protection,were in a position to practice their profession in reasonable safety [SUSA(1936)36].The holders of berats were bestowed with certain privileges.They paid lower taxes and had the same rights as European merchants,namely free movement in the territories of the Empire for commercial purposes.They also enjoyed inviolability of domicile and even the protection of Foreign embassies in case they were arrested.During the late 18th and early 19th centuries the beratli merchants succeeded in controlling the bulk of the import-export trade with Europe.The obtaining of these titles eventually became a precondition of trade.It was the only way in which non Muslims could avoid practices which were extremely unfavourable to trade,such as arbitrary taxation,confiscation of property,imprisonment etc [ISSAWI(1982)273-274].

In this context the development of the Greek mercantile marine during the late 18th century was the immediate result of the Treaty of Kuchuk Kainardji which placed all ships which flew the Russian flag under Russian protection and,therefore,allowed them to sail the Black Sea freely [SVORONOS(1983)26-27].The development of Greek trade during that period could also be attributed,at least partly,to foreign protection.Greek merchants under protection were in a position to operate in many European cities and to involve themselves in various trades.In fact the establishment of networks of the Greek held trade in Vienna,Marseilles,Trieste,London etc occured during this particular period.Nevertheless,it should be pointed out that not all Greek merchants obtained this protection.By any reckoning,however,foreign protection was a significant factor in the early stages of the development of the Greek mercantile bourgeoisie.

During the early 19th century things remained much the same.The commercial Treaties which the Empire signed with Western countries secured the rights of all foreign subjects trading in the Empire.However,the economic environment had changed radically.Free trade practices had been introduced in the Empire.Commercial transactions involved new dynamic sectors.The harassment of merchants by the authorities diminished,mainly due to the gradual,if not far reaching,liberalisation of the Empire.Commercial success became increasingly conditional upon factors such as organisation,management,involvement in dynamic sectors etc.The experience in these conditions which the Greek merchants had already acquired became a valuable asset.To this extent the importance of foreign protection eventually diminished.

In addition,the Ottoman government did its best to impose some restrictive provisions,with regard to foreign subjects and to preserve a certain amount of sovereignty.The 1869 citizenship law attempted to put an end to foreign protection [DAVISON(1966)262-263,TURGAY(1982),299].According to this law all persons living in Turkey would be considered Ottoman subjects unless they were in a position to prove the contrary.The Ottoman state attempted to undermine the capitulatory system itself by allowing foreigners to own land provided that they would pay the same taxes with the Ottomans [DAVISON(1966)260-261,Texts in NOURADOUNGHIAN(1902)III, 271-279].

Yet,the trade conventions which the Ottoman state signed with European countries in the early 1860's only partly altered the status of proteges.Each convention stipulated the rights enjoyed by the subjects of each country separately.However,these Conventions followed the same patterns.Thenceforth,foreign merchants,and presumably every merchant who could claim foreign protection,paid both import and export duties set at 8 per cent.It was stipulated,however,that export duties would be reduced annually until they reach the minimum of 1 per cent[Report by BARRON(1870)370].The Treaties also provided for transit duties set at 2 per cent.After the passing of eight years transit duties would be reduced to 1 per cent as well.To the extent,however,that foreign merchants involved themselves in internal trade they had to pay the same taxes with the Ottoman subjects.

These Conventions concerned only those who practice trade.Foreign subjects practicing other profession were usually exempted.According to a report submitted in 1866 to the Greek Foreign Ministry by Greek citizens working in Con/ple as money changers,taxes were levied upon every Greek who participated in guilds [Argiramivoi(1866):Archives of the Greek Embassy in

Con/ple,in A.Y.E].Having been classified as "manufacturers"by the Ottoman government,the Greek moneychangers complained because new taxes,not stipulated by the Greek-Turkish commercial Treaty,were imposed on them.According to the same report,only Greek citizens working in Con/ple as merchants were exempted from taxation paying only the taxes stipulated by the Treaty.Conversely,any Greek citizen working in the craft industry paid exactly the same taxes as the Ottomans.

In addition,the Greek money changers complained that the action of the Ottoman government deprived them of "the beneficiary surveillance of the Greek embassy".Greek subjects who traded in Con/ple not only paid lower taxes but they were also bestowed with certain immunities.According to a report submitted to the Commercial Department of the Greek Embassy in 1865 with regard to the bankruptcy of George Barras, "a foreign subject who goes bankrupt has the right to resort to the judgement of the courts of his country" [Ypothesis Barra(1865):Archive of the Greek embassy in Con/ple in A.Y.E].Moreover,Foreign embassies reserved the right to appoint members of their approval to the mixed commercial courts.In the case of Rizos versus Zafiropoulo for example,a public debate broke out when Rizos complained about the Greek embassy's interference with the court proceedings by appointing assessors allegedly on friendly terms with Zafiropoulo [NEOLOGOS,no 2153].Rizos himself was outraged because he thought himself been discriminated in favour of an Ottoman subject.In a letter sent to the Greek Foreign Minister Rizos protested against the Greek ambassador who "did not hesitate to change(the assessors) when my Ottoman contestant asked it....because my contestant is an Ottoman company(Societe Minerale Ottomane)regardless that its shareholders are Greeks"[Ypothesis

Rizou(1875):Archives of the Greek embassy in Con/ple,in A.Y.E].

Undoubtedly,therefore,the rights enjoyed by foreign subjects during the period under consideration continued to be important.However,this was not exactly the case with the Greek commercial community in Con/ple as a whole.A large number of Greek merchants,bankers,and manufacturers held Ottoman citizenship.Among them there were some of the most influential members of the Greek community such as Christaki Zografo,George Zafiropoulo,Psichari and others.In addition almost all Greek commercial and banking houses in Con/ple were under the Ottoman jurisdiction.The reader should have in mind that many Greek merchants in Con/ple resorted to foreign protection after the 1820's because of the oppressive measures taken by the Ottoman government to punish those who supported the Greek revolution.

By the 1850's and 1860's,however,Greek merchants who held Ottoman citizenship had no reason to ask for foreign protection.Most of them were not harassed by the authorities,certainly not enough to make them resort to European embassies.To this extent,Greek held trade,during that later period,was only partly associated with foreign protection.It is worth stressing that Greek subjects and Ottoman Greek subjects were very often contestants in commercial trials [see Ypothesis Vaya(1863),Diafora Kanniskeri Zarifi and Zafiropoulo(1865),Ypothesis Barra(1865):Archives of the Greek embassy in Con/ple,in A.Y.E].Obviously the immunities provided by foreign protection,particularly those with regard to tax exemptions,were not repudiated by those Ottoman Greeks who already enjoyed them.However,one should put emphasis to the fact that an equally large number of Greek merchants in Con/ple could cope without it.

Finally tax exemptions proper deserve some thought. As already mentioned the protected merchants did not pay some taxes and, therefore, they had an advantage over their Ottoman competitors, Muslims and non Muslims alike. However true this may be it is only partly correct. For the cost of commerce included not only taxation but other factors which eventually were equally important. It has been estimated, for example, that during late 1868 the cost in the grape trade, including internal taxes, direct taxes, transportation, and interest on the borrowed money increased the final price by 65% [KOYMEN(1971)52]. Internal duties, namely those duties not paid by protected merchants, accounted for only a small part of it-they usually varied between 8 and 10 per cent. Although this example concerns the grape trade, there is reason to believe that a similar situation existed in other sectors as well. In fact, relatively heavier taxes were not as important as some scholars believe and at any rate they could be offset by better organisation and more skillful management as was the case with those Greeks and non Muslims in general who never obtained foreign protection. Besides, as already mentioned internal taxes were gradually abolished in 1870's(see Chap.II,48).

One may, therefore, argue that foreign protection and whatever this implied was important only within the context of the Ottoman command economy of the 17th and 18th centuries. Yet, the basis of this economy crumbled during the 19th century. To this extent the importance of privileges deriving from protection had been reduced. In the era of free trade other factors, eventually, became more important. One should not go so far as to say that the economic implications of the capitulations were liquidated. However, it is more correct to suggest that capitulations gradually assumed a political rather than an economic dimension.European powers used them for their own benefit,as a convenient expedient in order to secure their right to interfere with the internal affairs of the empire.

Given the improvement in the position of non Muslims during the Tanzimat period,Greeks availed themselves of other factors as well.The bifurcation of Greek trade was perhaps the most important feature of the Greek commercial houses and it largely contributed to the development of Greek trade.The diaspora of Greek settlements throughout Europe,the Black sea and the Levant allowed the establishment of an extensive network of commercial houses [LAMPE(1982)39-43].The development of Greek shipping during the 19th century,based both in Turkey and Greece largely facilitated the establishment of that network. The Greek merchants were involved in almost every trade,from grain and barley,to cotton and manufactured goods. The dominant position of Greek merchant houses in some of the most important and expanding sectors such as the cotton trade in Egypt or the grain trade in the Russian and Turkish ports of the Black sea,was among the factors which reproduced and expanded the network of the Greek commercial enterprises [On the Greek commercial communities in Romania,Odessa, and England see respectively PHOKAS(1975)80-137,KARYDIS(1981)111-127,CHAPMAN(1977)35-42].

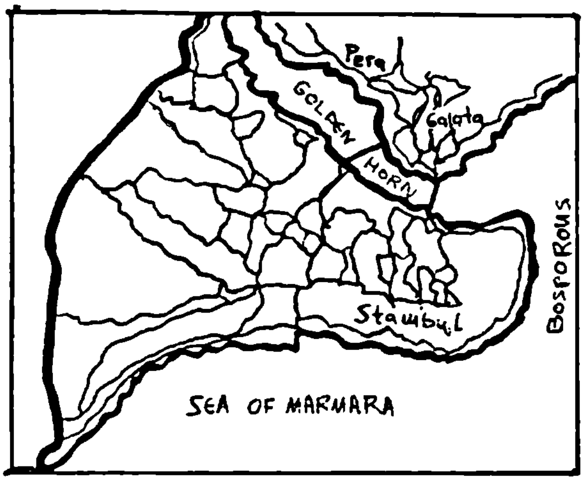
One important aspect of Greek trade,directly connected with its expansion,was the organization of the Greek commercial houses.Though not unique,this organisation was based on a strict,even patrimonial,hierarchy.Members of the same family working as merchants,agents,or bankers were part of the family's commercial and financial network and in direct contact with the house's headquarters in Con/ple,Smyrna or Alexandria.Members of the Ralli family,the founders of one of the most eminent Greek commercial houses,were scattered from Alexandria to London,and form Con/ple to Odessa [SYRIOTIS(1911)101-109,CHAPMAN(1977)37].In 1865 they were already involved in the Indian trade.The Ralli branch in Bombay closed down only in 1977.The house of Zarifi-Zafiropoulo,having Con/ple as its headquarters had extensive economic relations with other members of the family in London,Marseilles,and Odessa.The occupations of the individual members of each family varied according to the place each one of them was settled.Those who resided in Paris or London for example,occupied themselves mainly as financiers,while these resident in Manchester or Marseille,were involved almost exclusively in trade.Syngros went so far as to consider the way in which Greek commercial enterprises were organized as the mainstay of the Greek predominance in trade [SYNGROS(1908)I,122 and II,267-273].

Marriages among members of different families strengthened commercial relation and contributed to expanding business.For example when Odyseas Negreponte,a member of an eminent Greek merchant family of Bucharest,married the daughter of George Zarifi,business relations between the two families increased substantially.Negreponte,thanks to the help of his father-in-law was in a position to involve himself heavily in Ottoman finances,while Zarifi joined the Negreponte family in some very important economic activities in Bucharest,such as the Gas factory in the same city [NEOLOGOS,3/15/11/1871].

Certainly,Greek merchants did not trade only with each other.European merchants also had extensive commercial relations with them.The expansion of trade relations with Europe,largely intensified during the period under consideration,boosted the commercial and economic activities of Greek merchants.As a consequence,the more extensive trade transactions with Europe were,the more prosperous the Greek commercial houses became.It is usually argued that Greek merchants,and non Muslims in general,were simply agents of European capitalism [See for example the works of KARPAT(1977),TSOUKALAS(1977),ISSAWI(1982),PSIRUKIS(1977),MOSKOF(1972)].Undoubtedly,Greek merchants carried out a large part of Turkey's trade and in this sense they cooperated with Europeans.Yet, these "intermediaries",as they are usually called,would have been insane if they had not availed themselves of the increasing opportunities in Ottoman-European trade.In fact,they had the same motives as Europeans who traded with Turkey;the highest possible profits.And although they adjusted themselves to the existing conditions,namely European predominance,and free trade,their activities had their own logic and autonomy.

No doubt that the influence of non Muslims,and of the Greeks in particular,grew along with European power in the Middle East.Even so,it is also unquestionable that they were involved in the production and trade of the goods Europe needed most.Cash crop cultivation for example,remained in the hands of non Muslims,particularly the Greeks,throughout the 19th and early 20th centuries [SUZZNISKI(1918)115-125,ISSAWI(1982)262-264].Thus,given the European ascendancy both at the political and economic level,it was free trade,the infrastructure of the Greek commercial houses and the sectors in which they were involved which,in the long term,enabled Greek merchants to establish their leading position in trade.Cooperation with European commercial houses,and consequently with European capitalism,does not necessarily imply a relation between a "master" and a agent.Particularly in relation to economic cooperation any analysis on these lines appears to be an oversimplification and ,more or less,leads to moral rather than historical conclusions.

In Con/ple,where Greek economic activities were particularly important,all these factors largely contributed to the revival of the Greek trade and economic activities in general.There,the improvement of trade conditions,the domination of free trade,the existence of a Greek network of commercial houses,together with the superior education of Greeks and ,to a lesser extent,foreign protection,were among the factors which made the Greeks perhaps the most important element in the city's economy.



Map I:Constantinople in the 1870's.

Notes to CHAPTER III.

(1) The Indicateur Con/politain was a local periodical,but unfortunately shortlived,review,which provides a good deal of information about the social and economic life in Con/ple.One of the achievements of the review,however,was the publication of the "Liste des principaux Corps des Banquier,Commercants,Arts et Metiers,de la ville de Con/ple".The list includes 93 categories of professions linked with trade,industry,banking,free professions and services.1159 names are registered accompanied by profession and address of business premises.No doubt,the list is not complete.The publishersof the "Indicateur",Servakis and Sargologou pointed out,in a brief introduction,the difficulties they faced in preparing the guide,implying obviously that it was not complete.There are two main shortcomings worth stressing.To start with, the Armenian element is certainly underepresented in the list.Given the size of the Armenian population in Con/ple,almost equal in number with the Greek,and the fact that the Armenians were as active in trade and industry as any other of the non Muslim communities of Con/ple,the number of Armenian names is surprisingly low.Armenian names accounted only for 16 per cent of the total numer.Certainly,the underestimation of the Armenian element stems from the difficulties connected with such an undertaking in a period when no official records were kept and everything was relying upon personal knowledge and work.Moreover,had the total number of names been identified,the proportion of the Armenians would be certainly higher.

Certain objections could be raised with regard to the number of Muslims.Yet,as Muslims were much less involved in trade and industry than non Muslims,the number shown in the list was close to reality.Besides the development of a Turkish middle class involved in trade and industry took place only during the 20th century and must be connected only with that period.Moreover some details provided by the list with regard to Muslims are accurate.The concentration of Muslims in only a few occupations such as the fabrication of essences or the trade of candles and amber for example is amply shown in the list.

Secondly,the list includes only persons who had business premises.Certainly this shortcoming has nothing to do with the list itself,but the fact that no figures are given for professions such as the hamals,kaykchis,oarsmen etc by the publishers is unfortunate as that would be a major contribution to the economic history of Con/ple.

Yet on the whole,the picture which is presented by the list is correct.For the overwhelming dominance of non Muslim elements in trade,industry,bankng and free professions,shown in the list,is beyond doubt.Moreover,according to the list most of the business premises were located in Galata and Pera and not in the old city.The establishment of Galata and Pera as the main economic centres of Con/ple is also evident even by a brief perusal of the list.The shortcomings apart,the importance of the list as a useful and reliable source on social and economic activities in Con/ple is considerable.

PART II

CHAPTER IV :The origin and development of credit in the Ottoman empire:some introductory remarks.

Demand for credit in the Ottoman Empire first appeared in the late 16th century.Not surprisingly,interest bearing credit was initially provided by vakoufs,the only institution whose income was not subject to taxation,and could be accumulated and invested without any interference by the authorities.As early as the 16th century there were several occasions where vakoufs provided credit to individuals and they remained the most important,if informal,credit institution until the first half of the 18th century [CVETKOVA(1983)299-300].Later during the 17th and 18th centuries,credit was also provided by individuals,especially Muslim landlords.There is evidence to support the view that the provision of interest bearing credit gradually became one of the most profitable investments in the Ottoman Empire [ASDRAHAS(1975)166-167].It is true that due to the complexities of Islamic law interest-bearing credit was not permitted,and the Muslim courts did not recognise interest if the sum derived from it was registered separately in the contract [ECONOMICI EPITH.1879-80,299-300].Nevertheless,this theoretical hindrance could usually be overcome by certain prearrangements.In this case,interest was considered by both sides to be an integral part of the borrowed amount.

Capital resources,however,were scarce and what was available certainly could not match demand.Consequently,loans could only be raised at very high interest rates:30-40% were the usual figures charged,while rates of 60-80% were not uncommon.It must be pointed out,however,that high interest rates in the Ottoman empire should not be considered usurious.From an economic point of view usury exists alongside a formal banking system and already established legal interest rates.It could be argued therefore,that high interest rates in Turkey were capital's habitual reward in a country where banking was non-existent and capital accumulation inadequate.To consider the role of credit and banking,and consequently,of interest rates in Turkey in isolation from the whole context of inadequate capital accumulation would be unrealistic.Inadequte capital accumulation was the major factor which,in the last analysis,determined the development proper of banking in Turkey.

Credit facilities,however,did not lead to direct investment in production.Quite the contrary,Credit was used either to meet tax obligations,or for consumption purposes [CVETKOVA(1983)300-302].In a way therefore,credit was used as a necessary supplement to agricultural income.This was more obvious with regard to the incomes of timariots rather than cultivators,for,among other means,it was through credit that many timariots attempted to increase their income [CVETKOVA(1979)90-92].It is generally agreed that the checking of Ottoman territorial expansion resulted in the destabilazation of the timar system,which was by and large the most important institution of the Empire.Timar incomes,therefore,were greatly affected by this development.As,during the 17th century,these incomes tended to decline sharply,there were many occasions when timarios resorted to vakoufs,or individual moneylenders in order to borrow money for various purposes.There even were occasions when credit was used to prepare a military campaign [CVETKOVA(1983)302].Cultivators on the other hand borrowed money mainly to meet their tax obligations.Such debts,however were responsible for ruining large numbers of cultivators who,when the payment date came,were not in a position to repay their debts.

Demand for commercial credit assumed some importance during the 17th and 18th centuries.Growing commercial transactions,especialy in the Balkan provinces expanded credit activities.Along the trade routes of the Balkan mainland trade credit was,in many cases,available in cities and towns from individual money lenders.Money lending among individuals,however,did not include the spread of bills of exchange,a major mechanism of credit widespread in Europe at the time.This restriction seriously hampered the expansion of credit facilities [LAMPE and JACKSON(1982)27,126-127].By and large,therefore,credit facilities during this period were restricted,corresponding to the low level of monetarisation of the Empire;individual debts did not usually exceed a few thousand piastres [CVETKOVA(1983)303-306].Presumably,the devaluation of the Ottoman coinage after the late 16th century,further diminished the importance of credit facilities.

It was during the early decades of the 19th century that the money market of the Ottoman Empire expanded along with the spectacular development of trade in the region.Two factors mainly determined the pattern of credit in Turkey during the 19th century:existing capital resources and the pattern of economic development in the Ottoman Empire.Inadequate capital resources continued to be the most important long-term factor affecting and determining interest rates.To begin with,interest rates were,according to the area,as high as in previous centuries.In the area of pre-independence mainland Greece,for example,interest rates during the early 19th century varied from 12-30%.In towns and cities where commerce prospered,and trade links with Europe were close,12% was the usual figure charged.Conversely,in more backward areas,i.e those of subsistence agriculture,interest rates were considerably higher,varying between 30-40% [ECONOMICI EPITH.1879-80,299-300].Later in the century,the condition of interest rates remained much the same,even in the most prosperous regions of the country.In 1848 interest rates in Salonica were 20% but with skillful management that could go as high as 32% [ISSAWI(1980)343.In Smyrna during the early 1860's,interest rates for commercial transactions reached 12-18% per annum.During the same period,interest rates in Salonica were at least 12%,while in Bursa,ordinary rates varied,from 15-18% [FARLEY(1866)28,37].And this is only to speak of areas where commerce and export-orientated agriculture were extensive.In other parts of Turkey,20% was the lowest figure charged.

Such variations in interest rates undoubtedly reflected the fragmentation of the Ottoman economy and market.Interest rates are usually considered to be an indication of the existing capital resources of a certain region.Capital accumulation in areas of Turkey with either no,or a limited,connection with European markets,was likely to remain inadequate.Since commerce with Europe became a major source of wealth,the development of trade came to be tantamount to prosperity.Despite the fact that the increase in commercial activities in Turkey was derived from the development of a specific sector of Ottoman agriculture,these activities came in their turn to be an indication of the degree of integration of a certain area in the system of European peripheral economies.As European demand provided the incentive for further expansion of cash crop cultivation,capital circulation,an inevitable result of trade,became more frequent and capital more abundant.Not surprisingly,therefore,interest rates were considerably lower in areas with closer links with European markets.

Broadly speaking,the Ottoman Empire was divided,into two parts;one with a low and one with a high level of interest rates.In areas around the Western coast of Asia Minor,a part of the Southern coast of the Black sea and the region of southern Macedonia and Con/ple,interest rates varied between 12-18%,while rates in the rest of Turkey varied between 20-40%.This distinction,however,is relative,and important only within the context of the Ottoman economy,for if compared to contemporary Western interest rates,both levels look exorbitant.

The pattern of economic development,i.e the expansion of cultivation of certain cash crops determined the nature of credit in Turkey.Commercial credit essential to carry out trade in cash crops such as cotton,silk,opium,grain and tobacco,became the major kind of credit provided to the export-oriented sector of the Ottoman economy.Industrial credit on the other hand,was almost non existent.The decline of urban crafts,the only institution associated with some form of industrial production was so sharp,and the influx of European manufactured goods so extensive,that one may assume,with reasonable safety,that industrial credit was a rather risky operation.Besides the provision of industrial credit was conditional upon an already existing industrial structure and production.As has been shown in the case of European countries,links between banking houses and industry were not particularly important in the early and mid 19th century [GILLE(1980),KEMP(1978)66-82].

The expansion of credit was mainly associated with a parallel expansion of trade in the Middle East [OWEN(1981)88-89].In almost every city connected with import-export trade such as Smyrna,Salonica,Beyrout,Trebizond etc the demand for credit increased enormously.The establishment of close links between the Ottoman empire and European markets,as well as between local and European merchants,facilitated the expansion of credit in the area.The expanding trade in goods produced in the area absorbed large amounts of money.In the early 1840's for example,a newly arrived merchant in Smyrna would have needed capital of at least £20.000 "to do any good" [OWEN(1981)88].In addition the cost of cash crop production involving more sophisticated machinery and methods of cultivation,undoubtedly boosted demand for credit.

Credit,therefore,was closely connected with commerce,and it was in the main ports of the Empire that banking activities,however limited,took place in a regular fashion.Circulation of bills of exchange,discount facilities,drafts,exchange of coinage and similar transactions were carried out in most of the main ports of the Empire with relative frequency.Despite all these however,the lack of commercial credit was still urgent and the limited local resources of capital could not match demand.Finding credit in Europe became therefore an indispensible outlet for merchants working in Turkey.In all major ports of Turkey commerce and banking became to a large extent inseparable and banking transactions were carried out by commercial houses,especially by those which themselves had good credit in Europe.For example,among the sixteen largest houses of Salonica,representing a capital of six million fr,there were only three banking houses,but the rest were involved in banking as well [VACALOPOULOS(1980)49-54].

In Smyrna an attempt to establish a bank did take place during the early months of 1843.According to a letter addressed to Canning by the founders of this establishment, "The bank is a purely commercial institution...founded entirely on the principles and basis on which similar banks are formed in Europe...to put down certain local commercial abuses,to reduce the usurious rates of interest and to give an effective central facility to the money transactions." [FO195/178,letter dated 20/1/1843].The bank however,was shortlived and was liquidated one year later [ISSAWI(1980)340].But even during the early 1860's there was no bank in that city but only"good houses doing occasionally banking business...when profits are so large that they are induced to enter into such transactions" [FARLEY(1866)25].There is also evidence to suggest that a large number of commercial transactions were realised through commercial or banking houses in Con/ple on very costly terms.In this way,credit facilities in most of the ports were effected in a rather unorganised and,by and large,ineffectual fashion.Conversely it was in Con/ple that banking activities became more concrete,organised and effective.But as will be shown below,banking in the capital of the Empire was only partly connected with commerce.The numerous banking houses established in that city between the mid 1850's and early 1870's were mainly involved in another,much more lucrative and secure field,namely the provision of credit to the Imperial government.

After the first three decades of the 19th century,the Ottoman empire faced insuperable problems.The emergence of vigorous national movements among the Balkan peoples,the Greek war of independence,and the defeat Turkey suffered at the hands of the Russians in the late 1820's proved a harsh blow to the Empire.The war with Mohamed Ali,who had escaped the control of the Ottoman government and established his own autonomous State in Egypt proved equally disastrous.In addition,economic conditions within the Empire were far from ideal.The state of commerce with Europe was severely affected by the Napoleonic wars,and its revival had not yet been accomplished.Poor transportation facilities,devalued coinage,and the existing monopolies considerably affected the existing conditions and contributed to the general economic and commercial stagnation.The repercussions of all these factors led to an immense pressure on the Treasury.Following the Tresury crisis during the late 1830's,the government was forced to introduce paper money(kaime) for the first time [DAVISON(1980)243-244].The kaime bore interest of 12.5%and had no backing specie.It was not convertible on demand into metallic currency unless it reached maturity,namely,after eight years from its issue [DAVISON(1980)245,Mc KENZIE(1983)].In 1842 however,the Ottoman government decided to withdraw kaime from circulation in all provinces except the city of Con/ple.This decision was mainly due to the shortcomings of the kaime proper.Paper money could be very easily counterfeited,as the original notes were writen by hand on large sheets of paper,and in addition,were not numbered serially [DAVISON(1980)247].In reality paper money was the first domestic loan to get funds for an empty Treasury.

This,however,was not the first time the government had resorted to individuals for credit facilities.Short-term credit to the Ottoman government first appeared to an important extent during the late 18th century.Local capitalists,the so called sarrafs,initially provided credit to the members of the Ottoman government,and only later came to meet the immediate needs of the Treasury.A firman in 1795 legalising interest rates on commercial transactions greatly facilitated transactions between the Ottoman government and individual money lenders [ISSAWI(1980)340].All sarrafs,known also as the Galata bankers,were non-Muslims,mostly of Armenian origin [FARLEY(1866)5,DAVISON(1982)325].They performed two types of services;the exchange of currencies,and the granting of loans.They were also involved in the provision of the Army and Navy.In dealing with the government however,the sarrafs asked for anticipated tax receipts as a guarantee.This particular aspect of banking activities led many of them to acquire tax farming concessions [ISSAWI(1980)340-341,SYNGROS(1908)II,17].By the early 1840's sarrafs had therefore,become a stratum closely linked with tax farming.There is evidence to believe that sarrafs had invested most of their capital in tax farming[STURDZA(1983)459].Such investments were not only profitable,but secure as well,as most of the transactions were made on behalf of,or with the overt cooperation of,pashas and other senior officials.Not surprisingly,it was due to the sarrafs'influence and opposition that the abolition of tax farming,following the Gulhane rescript of 1839,was finally revoked [DAVISON(1966)44,(1980)243-244].It is not an exaggeration to consider sarrafs as a part of the Ottoman establishment.The services they provided to the Ottoman State were immense,while the relations they had with many of the senior officials,Pashas,members of the Imperial family and even the Sultan himself,made them important elements,if informal,of the Ottoman administration.

The credit they provided to the government is also worth mentioning.Unfortunately,there is no detailed information about the short term loans to the Ottoman State during the first decades of the 19th century.In February of 1840 however,a group of local sarrafs,lent the government nearly one million sterling with an interest rate of 18%,in order to help the government to avoid the immediate financial embarrassment [DAVISON(1980)244].Ten years later,another group of local capitalists was prepared to lend to the government 45 million fr,an advance which in the event was not made as the capitalists feared that the government was not in a position to repay them.

Yet,times were changing,and the local sarrafs faced two new competitors in the early 1850's;the emergence of Greek and Jewish banking houses and the introduction of foreign capital.The development of Greek banking houses will be discussed in detail below,but a few brief remarks are necessary.As has already been pointed out the revival of the Greek commercial community in Con/ple was associated with the development of the Ottoman import-export trade.Greek merchants had established close connections with the European capital markets.Their own credit was estimated to be high and their capital resources were large.During the early 1850's,Greek bankers had already established banking and commercial houses in Con/ple based on modern banking principles.

It was during the early 1850's that the Ottoman government tapped the European money market for a loan.In 1852,an Imperial rescript authorised prince A Callimachi,minister of the Sultan in Paris,to negotiate a loan in Europe on behalf of the Ottoman government.Callimachi was in constant communication with Theodore Baltazzi and John Alleon two leading bankers of Con/ple who,in their turn,had close relations with Reshid Pasha,the prominent

Ottoman reformer,who at the time was head of the Ottoman government.The negotiations were fruitful and in the end,three European houses were ready to advance 35 million fr to the Ottoman government [the contract is found in FO195/460].The loan would bear a modest interest of 6% plus 1% for prime and 2% for commission,and would be guaranteed by the Tributes of Egypt and the Principalities.Despite the fact that negotiations were successful the loan was not raised.This failure was mainly due to the opposition of some of the wealthiest Armenian bankers.It appears that they sabotaged the loan,fearing that its success would benefit the Greek and Jewish banking houses.[STURDZA(1983)461].

These early clashes between Armenian bankers on one side,and some of the Greek and Jewish banking houses on the other,is an indication of changing conditions.While the Armenian bankers appeared reluctant to implement new methods of banking,and to accept the opening of Turkish finances to foreign capital,Greek and Jewish bankers were not.Obviously,it would be unrealistic to suggest that the early of Greek and Jewish bankers were not,at least in part,associated with the local sarrafs.Yet it seems that a diversification had occured among the bankers of Con/ple.For example tax farming,which was an important area of investment for the sarrafs was only of limited interest to the Greek bankers.Instead they concentrated on strictly financial or commercial business.In addition,most of the Greek merchants who,at the same time,were also involved in banking were eager to achieve financial stability,a development which would certainly damage the interests of traditional sarrafs who benefitted mainly from the trade in depreciated currency.

In this context,a letter sent to Canning by the directors of the Bank of Smyrna-a commercial establishment founded mostly by English French and Greek merchants-is revealing.According to this,

"the Armenian sarrafs and many others,are intriguing to excite the Porte to put down the bank in their jealousy and fear lest it may...interfere with their usurious traffic as the sole speculator of the revenues of the Empire." [letter dated,20/1/1843 in FO195/178]

In the event ,the decline of the traditional sarrafs was manifested during the following decades when the distinction between sarrafs and bankers became more apparent.This development,is highlighted by the fact that the term "sarraf" came to be equivalent to the petty seller of coinage.In the early 1870's there were at least 5.800 sarrafs in Con/ple alone,involved in exchange of coinage [LEVANT HERALD,3/5/1877].And later in the century a Greek traveller reported that there were as many sarrafs in Con/ple as dogs [FRANGOUDES(1901)38-39].In their initial stage,however,sarrafs came to play leading roles in financing the Treasury or individual officials of the Ottoman State,and through these activities they aquired wealth and power.

CHAPTER V: The early stages of Greek banking in Con/ple. The role of the Greek bankers in the establishment of a National Bank in the Ottoman Empire.

By the mid 1840's,the recovery of the Greek commercial community in Con/ple was almost complete.Increasing commercial transactions with Europe contributed considerably to the re-emergence of a strong Greek mercantile bourgeoisie in Con/ple which proved able to avail itself of increasing commercial opportunities and of establishing extensive commercial networks.Not surprisingly,the capital accumulated by Greek merchants often reached large proportions.The development of trade in the Levant and the opening of Turkey to European capitalism,soon opened new fields for investment.The development of Greek banking houses inevitably derived from a prosperous commercial community with sufficient capital accumulation to support this venture. The financial embarrassments which the Ottoman State faced during the same period,were perhaps the most important factor responsible for the deflection of part of Greek capital to banking.Trade profits undoubtedly remained high,yet there is evidence to suggest that transactions with the State were more lucrative.Short term loans to the government yielded profits far superior to those deriving from trade;interest rates on most of these transaction reached 18%,a yield which could no longer be earned in commercial transactions.In addition the guarantees granted by the Ottoman government provided sufficient security to those who wished to invest in short term advances.

The nucleus of the wealthy Greek bankers therefore,derived from trade [for a chronology of this process see HADJIIOSIF(1983),see also the interesting but controversial account of MC NEILL(1978)31-64].When,for example the first Ottoman Bank was established two of the three Greeks participants in the bank,Zarifi and Glavany,were merchants.Even Baltazzi who since the late 1830's had been a leading banker in Con/ple but in whose case there are no indications that he was involved in trade,came from a Greek merchant family of Smyrna.This situation is highlighted by the fact that during the late 1860's almost all Greek bankers were directly involved in trade.Most of the time however,this connection was established through the houses of other members of the family engaged in commerce.Nevertheless it is reasonable to assume that the interrelations among individual members of the same family,irrespective of the field they were engaged in,were close.

The case of Zarifi and the Zafiropoulo families,provides an ecxellent example.Since George Zarifi had married the sister of George Zafiropoulo business connections between them became so close,that,after some time,they decided to merge their houses.Zarifi's brother,Michalis Zarifi,was at the time in London practising trade,while the brother of Zafiropoulo,Stefano Zafiropoulo,who lived in Marseilles,was also engaged in trade with Egypt and Syria.Zarifi's other brother,Nicos Zarifi,soon joined the firm,when he became a partner of Zafiropoulo in Marseilles.The establishment of the network was therefore complete.The members of this network were able to draw bills upon the houses of the two others or to find credit relatively easily.And even when the firm of Zarifi & Zafiropoulo was heavily engaged in banking,it continued to practice trade.For example,at a time when the Ministry of War was having difficulty to finding grain for the troops,Zarifi provided the Ministry with 40.000 kg of grain [NEOLOGOS,24/6/1879].

Greek Bankers had to rely on credit in Europe.This,was a very important aspect of Greek banking,as the capital engaged in banking was not sufficient to support the bankers'activities.The increasing financial needs of the Ottoman State required vast amounts of capital,which the Con/ple money market lacked.Resorting to credit in the European money markets was therefore unavoidable.Not surprisingly,the more the Greek,and other local,bankers advanced capital to the State,the more they became dependent on European credit.As a consequence,the Con/ple money market became extremely vulnerable.When political or economic conditions in Europe seemed gloomy,credit facilities to the Galata bankers were restricted,with grave consequences for this market.Thus,on several occasions,Greek bankers found themselves in an extremely precarious situation,where they owed money in Europe,but could not pay as their credit was limited and their capital was engaged in short term advances to the Treasury.[see also below Chapt.VI].

Another important aspect of Greek banking was its relation with European capital.Greek bankers,it should be emphasised were,to a greater or lesser extent,forced to take into consideration the activities of European banks and capitalists.Faced with European economic penetration the Greek bankers were left with the options of co-operation or rivalry.They opted for one or the other according to circumstances,aligning themselves with one particular European syndicate against another,only to change sides when the times suited them.This is not to say that European capitalists were more reliable than Greek bankers.They too,cooperated with Greeks only when their interests seemed compatible.Otherwise,they tried hard to undermine the activities of the Greeks.But that was only to be expected,as competition for control of the Ottoman finances proved in the end to be very harsh.In addition,there were incompatible interests within the camp of the Greek bankers.It should be stressed that not all Greek bankers found cooperation between themselves acceptable.Although alliances among Greek bankers were to a certain extent permanent,there were also occasions when reciprocal distrust among individual bankers was so intense that they found any cooperation impossible.On the other hand,cooperation also occurred among the different sides of both Greeks and European capitalists,although alliances among them were hardly permanent.Therefore to consider the development of Greek banking activities outside the context of European economic penetration would be unrealistic.

The aforementioned remarks are valid also with regard to the relations of Greek bankers with the other local elements involved in banking;the Jewish,Catholic,and Armenian bankers.The Jews in particular,with their connections with Jewish banking houses based in Europe,proved to be serious competitors,and bankers such as Cammondo or Fernandez were a force to be reckoned with [FRANCO(1897)216-218,SYNGROS(1908)II,157-59].The Catholic community of Con/ple included some of the most dynamic bankers of the city.Tubini,a Catholic from Chios,became the most important Catholic banker when he succeeded in cooperating with the Societe Generale of Paris,although his success must be at least partly attributed to his close connections with the Tubini & Cie banking house in Paris [SYNGROS(1908)II,278,THOBIE(1977)90].The Armenians,on the other hand,were the less powerful element in connection with banking,although some of the Armenian bankers,such as Kieotseoglou and Misirli,had a large share in most of the banking activities in Con/ple.Greek bankers dealt with their

Jewish,Armenian and Catholic counterparts the same way as they dealt with Europeans,and vice versa.Attitudes of cooperation or rivalry were as conspicuous among Greeks and the other local bankers,as they were in the case of European banks and capitalists.

The involvement of Greek bankers in transactions with the Ottoman State was deep.When the financial crisis of the Treasury broke out in the early 1840's,and the Porte was anxious to reform its monetary system,it resorted to the services of two of the leading bankers of Con/ple;Theodore Baltazzi,a Greek,and John Alleon,a Jew.The main task of the two bankers was to keep the rate of exchange with the English pound at par [DU VELAY(1903)126].This early efforts finally led to the establishment of the Bank of Constantinople.The Bank was founded in 1847,in accordance with an Imperial Decree,for the purpose of preserving the parity of the Ottoman pound,which had become the basis of Ottoman currency since 1844 [BILIOTI(1908)91-96] with European currencies and particularly the English pound [UBICINI(1856)II298,STURDZA(1983)455].Baltazzi,and Alleon were appointed managers of that new institution and presumably,used some of their own capital [DU VELAY(1903)126].The initial capital reached 25.000.000 piastres,but it was hoped this could be increased to 100 million through public subscription,although this in fact never happened [MORAWITZ(1902)18].The bank's association with the government was close,and the management was obliged to conform to the government's wishes.These tight links were highlighted by the fact the bank was subsidised by the government to the tune of 450.000 fr annually.The activities of the bank in the commercial field were confined to the issuing of bills of exchange,always maintaining the parity with the English pound to 110 piastres [STURDZA(1983)456-457].In a period of three years the bank issued bills of exchange equal to 810,259,560 piastres with a loss of 26.282.744 piastres.In order to back its bills the bank was obliged to buy currency at a high price,although it issued bills of exchange at a lower rate [UBICINI(1856)II,302].

In addition,the bank was obliged to exchange devalued coinage at a certain parity.In this case the discount of devalued currency was favourable to the holder.It is well known that currency depreciation was one of the traditional ways in which Ottoman governments attempted to escape financial embarrassment.This currency however remained in circulation and commercial transactions were often conducted with poor coinage.Trade in currencies had become an extensive and profitable field of business.Yet,poor coinage was harmful to merchants who apparently wished for financial stability.In a period when the Ottoman State was trying to improve its image in Europe,the hampering of trade in this way,was presumably a hindrance to this attempt.Besides,the monetary reform which the government had proclaimed in 1844 certainly could not be accomplished,unless the devalued currency was finally withdrawn.Obviously with this end in mind,the Ottoman government attempted to withdraw poor coinage,and the bank was assigned the job.This attempt,however,proved disastrous to the bank when holders of devalued currency found this an excellent opportunity to dispose of it with the minimum damage [MORAWITZ(1902)18-19].The bank also dealt in paper money.In instances when the metallic currency in Con/ple was in short supply,the bank provided paper money at the official price,though it bought paper money only at considerable discount.Nevertheless,dealing in paper money was not detrimental to the bank,mainly because of the price of kaime at the time which,thanks to the regular payment of interest,was quite stable [DAVISON(198)249].

In this way the bank suffered periodic losses which it could ill afford.The subvention of the government did not suffice to sustain the activities of the bank which,in 1852 showed a loss exceeding its real capital,and in the same year the bank wound up its affairs with a loss of 35.000.000 piastres [UBICINI(1856)II,303].Although this final result was to be expected,some remarks must be made with regard to the operation of the bank.The bank lacked the means to achieve its ends and be profitable at the same time;the capital employed was,to put it mildly,insufficient and to abide by the policy of the government could not be sustained for long.The withdrawal of devalued currency in particular,needed vast amounts of capital as later experience would show,and even then it was questionable whether it could be successful.The close association of the bank with the government was the most important aspect.According to its statute the bank was bound to follow the policies of the government,and in this way it was reduced to the status of"public servant".Control of the economy and its mechanisms was,as has already been discussed above,a permanent feature of the Ottoman state,and the establishment of the Bank of Con/ple is an excellent example of this particular aspect.

Notwithstanding,the monetary and financial problems with which the Bank was supposed to deal remained,causing confusion in commercial affairs and distabilizing an already vulnerable economy.In addition the government was anxious to establish an institution to which it could entrust its monetary policy,namely the withdrawal of devalued currency and maintainance of the

Ottoman pound and paper money at par.In fact during the early 1850's several projects were submitted to the Ottoman government. During the early months of 1853 three projects had been presented to the Ottoman government concerning the creation of an Ottoman bank.The first was submitted by the banking company Trouve & Chauvel,which also represented a group of London based capitalists [FO195/460 letter dated 3/3/1854,see also DU VELAY(1903)129].According to a letter sent to Lord Redcliffe by Theodore Baltazzi,the bank would undertake the withdrawal of devalued currency within a period of two years at its own expense.In addition,the bank would maintain the parity of the Turkish pound with sterling at 110 pst,and would exchange all interest bearing paper money at par.The Ottoman government,on the other hand,would subsidise the bank's capital with 30 million piastres,and would pay the bank 450 million piastrs within a period of fifteen years without sharing in the profits.Baltazzi however,had an interest in the failure of the project,because he himself,along with the Jewish banker Cammondo and a group of local capitalists,had also proposed a similar project to the Ottoman government.His project was presented to Fezid Effendi,the Sultan's first secretary,in a letter dated 24 March 1853 [FO195/460].

It is interesting to note the fact that the bulk of the participants in Baltazzi and Cammondo group were,as Baltazzi himself put it "des sujets fideles a la Porte."In its main points the project of Baltazzi and Cammondo was exactly the same as that of the rival group.There was a difference,however,which made Baltazzi's project more tempting.His project would be accompanied by a loan of 2 million sterling which would be of immediate benefit to the Treasury.In addition,Baltazzi's project appeared to be less costly,and,if it had been finally accepted,the

Ottoman government would have saved 144 million piastres.Baltazzi himself was optimistic about his project noting,in his letter to Redcliffe,that, "With the exception of the Grand Vizier,all other ministers are favourably disposed towards our projects because they realise the huge economies that will take place..".In the event,no project was approved by the government.Baltazzi,however,succeeded in signing a contract with the Ministry of Finance according to which his house would be able to draw bills at a discount in order to keep down the exchange rate with the English pound to 132-133 piastres.In return for this,the Minister would pay Baltazzi the value of bills drawn not in Ottoman currency,but in French napoleons [Contract dated 26/4/1854,in FO195/460].

This early attempt however,was soon followed by another project which was submitted to the Ottoman government by a group of local capitalists.This time the attempt was fruitful,and the group succeeded in obtaining the right to found a bank which,as will be shown,was based on practically the same principles as the Bank of Con/ple.The Ottoman bank was established in accordance with an Imperial irade of April 5 1853 [the ferman is in FO195/460,see also UBICINI(1856)II,297].The bank was founded by a group of local capitalists with the capital of 200.000.000 piastres.According to a letter of J Hanson,an English merchant who participated in the bank,to Lord Redcliff the bank would consist of the following capital:100 million piastres would be subscribed by the founders,30 million piastres would be given as dotation by the Ottoman government,and 70 million piastres would be provided through Public subscription [FO195/460,letter dated,5/4/1856].The group included some of the wealthiest Armenians who,apart from being opulent,were also directly connected with the Ottoman

State.The most important among them were,Mihran Douz,the director of the Imperial Mint,Boghos Douz,Keeper of the Sultan's jewels,and Diran director of the gold and silver refining Department [FO195/460].However a group of merchants and bankers also participated in the establishment of the bank.The presence of Greek capital in the establishment of this bank appears to be important.The group of bankers and merchants includes the names of Psychari,Zarifi and Glavany,who at the time were among the leading capitalists in Con/ple (1).The arrangement was that the Ottoman government would subsidise the bank with 30 million piastres for a period of fifteen years [UBICINI(1856)II,297].The bank undertook to withdraw devalued coinage,and to maintain the parity of the Ottoman pound with European currencies stable.In addition the bank was granted the right to issue bills of exchange and to discount or cash bills.The bank was also obliged to repay the State for the paper money at the end of fifteen years and without interest,maintaining it until then at parity [UBICINI(1856)II,297-298].Although there is no information available with regard to the operations of this bank it seems that it was also shortlived.Both the amount of the capital involved as well as the fact that the bank was engaged in the same activities as the Bank of Con/ple suggest that the results were disappointing.This bank however,should not be confused with the Ottoman Bank of London which was founded three years later (see above, 36).

The failure of the Ottoman bank to cope with paper money and devalued currency soon prompted the government to seek new combinations for the establishment of a new bank which would be assigned the job.During the late 1850's several projects were submitted to the government with the objective of founding a bank.Among those projects two seems to be the most important.One was the project of the Ottoman bank in London,elaborated by the directors of that institution,and presented to Reshid Pasha by Layard.The second project was proposed by a group of Greek and English capitalists based both in London and Con/ple [ISINKSAL(1968)2-5,LANDES(1958)62].

According to the Ottoman bank's project,presented in a letter dated 13 Dec 1856,the "National Bank" would be assigned all financial operations of the government both abroad and within the Empire,including the issuing of loans in European money markets and other similar operations [FO195/460,letters dated 13/12/1856 and 18/12/1856].The group of the Ottoman bank however,did not include Ottoman subjects,which appears to have been the main shortcoming of the project.For this reason the directors of the bank were willing to accept the participation of Ottoman capitalists on one condition:that the committee of the new bank established in Con/ple by Ottoman capitalists would be prevented from obtaining control of the bank.The letter,however,did not mention the capital which would be engaged in the establishment of the bank.This was not the only point on which the project was obscure,for the syndicate of the Ottoman bank in London did not in the end produce a detailed plan [BASTER(1934)83].Presumably this was because,as Layard put it in a letter addressed to Lord Redcliffe, "we[the syndicate],could not,without much local knowledge and experience,see our way [letter dated 22/2/1856 in FO195/460].

Conversely,the project of the Anglo-Greek group had been elaborated in detail (2).According to this project,the invested capital would reach enormous proportions.The first part of the capital however would not exceed £2.500.000,although according to the bank's statute the founders were obliged to establish a capital of £10 million [see the bank's statute in FO195/460,see also THE TIMES,19/3/1857].According to the statute submitted to the Ottoman government the bank would hold issuing privileges.This was the most important aspect of the project because that privilege would give the bank substantial powers.In addition the bank would advance to the government any amount of capital required to meet the needs of the Treasury.The government in its turn,would be obliged to grant Treasury bonds to the bank,with the purpose of serving as a guarantee for any future advance.It was this second project which was finally accepted by the Porte and the initial negotiations with the group were concluded in March 1857.As a consequence an original convention was signed between the concessionaires and the Ottoman government,which in Europe was thought to be final.After admitting that"the detais of administration had been left open"the correspondent of the Times in Con/ple who reported the news in the first place,goes on to say that "in the original form of convention,the supreme direction of the bank was vested in a committee sitting in London and composed in such a way as to insure at all times a majority to the English holders...such an arrangement was evidently vicious,and Reshid pasha would not in any way consent to it.He insisted on the direction being entirely in Con/ple." [THE TIMES,19/3/1857].

It seems that the Ottoman administration was not prepared to accept foreigners controlling an institution which was supposed to play a role similar of that of the Bank of England,or the Banque de France.In addition,according to a scrutiny of the bank's statute by an expert it appears that there were at least eight points where this statute was obscure [see Remarks on the Bank of

Turkey,in FO195/460].Thus,in spite of the initial agreement,the Ottoman government became reluctant to proceed with the project.In view of the government'hesitation Wilkin,the head of the syndicate,was found in a difficult position.In July 1857 he went to London"in search of new combinations [Letter to Musuros Pasha,21/July/1857,in FO195/460].He obviously thought that £10 million could not possibly be raised in Con/ple alone,and,therefore,a more powerful combination was needed.In the event,however,Wilkin's mission failed and the project was abandoned.The government's reluctance apart,the opposition of the Ottoman bank in London could have also been responsible for this failure.There is evidence that the Ottoman bank group strongly opposed an attempt by Rothschild to establish a bank in Con/ple.In a letter addressed to Reshid Pasha Layard,the head of the bank,claimed that the interests of Turkey were incompatible with those of the Rothschild family,because the latter"might sacrifice the interests of the country to another Empire,and even to a power hostile to Turkey,when time...seems appropriate" [FO195/460,letter dated 13/12/1856].Thus,although there is no evidence directly supporting the view that the Ottoman bank opposed the success of Wilkin's project,it may be also said that it had very good reasons to do so.After all,Wilkin's group proved to be its most important rival.

However,it was another Anglo-Greek group which finally succeeded in getting the approval of the Ottoman government.Nevertheless,it should be pointed out,that at least some of the senior members of the Ottoman administration favoured the project of this group.For example,Musuros Pasha,a member of an old Phanariot family who,at the time,was the Sultan's minister in London and,who had assisted Wilkin during his visit to this city,urged the government to appoint his brother,Panagiotachi Musuros,to the post of the Deputy Governor of the new Bank,which,according to the wishes of the founders was to have been reserved for a member of the Ottoman administration [ISINKSAL(1968)4].Besides,it would be unrealistic to believe that a project could be approved without the assistance of at least some,of the members of the Administration.

The new bank,which was established in May 1858,was styled the Bank of Turkey.The group which proposed this project was headed by Emanuel Rodochanacki,a leading merchant of Con/ple,and William Gladstone an English capitalist [ISINKSAL(1968)5].Among the group of Greek capitalists who backed the project,are the names of Mavrokordato,Ralli and Vlasto.[ISINKSAL(1968)4-5,BANKERS'MAGAZINE(1860),XX,81 (3)].The capital of the new bank was £1.000.000,divided into 50.000 shares,with the condition that it would increase to £3.000.000 if the government requested it.The Bank of Turkey started operations the same year and its prospects were good.The financial crisis of 1861,however,proved to be a major setback to the bank and led it to its liquidation a few years later.[see below,Chapt V,166].

The failure of this bank did not discourage the Ottoman government which soon began negotiations with another interested group.The two sides concluded an agreement which led to the establishment of the Ottoman Imperial Bank [see above,ChaptI,29-30].The Imperial Bank did not share the fate of its predecessors.It enjoyed substantial privileges as well as the support of some of the most powerful groups of financiers in Europe.In the event this bank came to play an important,if not decisive,role in the conduct of Ottoman finances.It was a typical example of European economic predominance.

At this point,however,another question should be discussed.At which extent did the Tanzimat reforms contribute to the banking development in the Ottoman empire.It is well known that,apart from political reforms,the Hatt-i Humayun of 1856 stipulated the establishment of banks in the Empire [DAVISON(1966)55].Yet this significant political document only marginally dealt with such questions.One may well suggest that the few clauses regarding economic or financial issues simply supplemented a political declaration.In other words the emphasis was not on economic questions.The reforms apart,however,the government was obliged to establish a State bank.Not only because the government was in need of money-it could still resort to local private bankers-but also because such an institution was essential,so it was thought,for the stabilization of Ottoman finances.Yet,similar institutions,if unsuccessful,had already been established in Turkey before 1856.

It appears,therefore,that the contribution of the reforms to banking was only marginal.Instead,it was European economic penetration that allowed and strengthened the development of banking.The "formal" introduction of foreign capital in the empire,first through trade and then through loans,railways and mining,soon dominated the major sectors of the Ottoman economy.It was this process which eventually led to the major financial and economic instabilities.One could,therefore,argue that the attempt of the Ottoman state to stabilize its finances,and the establishment of a state bank in particular,was also a side effect of this process.By the late 1850's,however,this process was already under way and the Hatt-i Humayun simply endorsed the inevitable.

Notes to CHAPTER V.

(1) The group of capitalists which was assigned the foundation of the bank also included:Ohanes Tighris,Allahveri Maksoud,Bedros,Youghikdgian,Bilikdgi Mihran,and A Hanson.

(2) Another proposal,apart from the Wilkin project,was submitted to the Porte at approximatelly the same time.This scheme was presented by E Paxton a member of the English parliament.Paxton represented a group of powerful figures in British economic and political life.The group included S Laing,Chairman of the London and Brighton Line,A Darby of the Ironworks,J.A Chowne director of the Telegraph Company as well as E.J Ewar,MP,E Cangley MP,and N Jackson MP.The project contemplated the establishment of the Imperial National Bank of Turkey with an established capital of 7 million.There is no indication that the two groups had any connection whatever.A Baster in his article "On the origins of British Banking expansion in the Near East"(1934),does not refer to the Wilkin Group and confuses it with the Paxton group.In addition no member of the Paxton group participated in the Bank of Turkey finally founded in 1858.Yet,the material found in the file 460 in the series 195 in the PRO/FO archives is incomplete and fragmented and perhaps further research would establish a connection between the two groups.

(3) The group of the Bank of Turkey also included,Lak,Hambesfazis,Misiroglou effendi,Maurogordato,P Kirilas,Rodelaki,Kalaronis,Horasancioglou Effendi,Pismitsioglou Effendi,A Hanson,and Vlasko(Vlasto?).

CHAPTER VI:Euphoria and frustration:1850-1875.

Short term advances to the Treasury.

The fact that various projects had been submitted to the Ottoman state during the previous decade should not lead to the conclusion that Greek banking activities were limited.Quite the contrary:throughout this period,Greek bankers were heavily engaged in various advances to the Ottoman government.The sums due to native bankers amounted in 1854 to about 550 million fr(=£22 million) [Report by BARRON(1867-1867)438].A few years later,in 1859,of the total of the Ottoman state debt of 774 million fr the internal debt corresponded to 450 million fr and it was almost exclusively in the hands of local bankers [DU VELAY(1903)154-155].The division of Turkey's internal Debt at that date reads as follows:

Table I:Internal Debt of The Ottoman Empire.

Short term loans to The Ministry of Finances:	127.000.000fr
Kaimes in circulation:	14.000.000fr
Treasury bonds:	56.000.000fr
Internal loan of 6%,	56.000.000fr
Bons de consolidations,*	86.000.000fr
Floating Debt:	110.000.000fr
TOTAL:	449.000.000fr

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*issued in order to consolidate the Civil list.

Source:DAMIRIS(1915)26-27./

How much of that debt was in the hands of Greek bankers is impossible to say.One may assume however,that since Greek bankers were heavily involved in short term advances to the State,they controlled a large,and perhaps the major share of the Internal debt.The profits deriving from these transactions with the government were enormous.Syngros,who at the time was working in the house of G Petrochochino recounts in his Memoirs that"Only in the years of 1859 and 1860 did the balance sheets of our branch in Con/ple show an annual profit of 2.5 million fr.Bear in mind that this branch was working without capital proper because the necessary capital was provided by the central branch[of Petrichochinos's House]in Marseille." [SYNGROS(1908)II,24].

It is necessary to explain the major mechanism which enabled Greek bankers to make such profits.Money was provided to the Ottoman Treasury or its indvidual Departments against guarantees,mainly in the form of Treasury bonds,or other documents acknowledging the obligation of the State to pay back the borrowed sum with interest.Greek bankers,in their turn,used these documents as a guarantee in order to borrow money from European money markets.If payment to the bearer of the document was acknowledged,they simply discounted those documents in Europe.In both cases however,large profits could be made for the simple reason that interest and discounting rates in Europe were considerably lower.For example,when a Greek banker borrowed money in Europe at 3-4%,which was the ordinary interest rate in European money markets,while at the same time he charged the Treasury 12-18%,which was the ordinary rate in Turkey,he benefitted by the difference of 9-15% on his invested money.Thus,according to the amount of the invested money,rates of profit could be extraordinarily high.Syngros,who during the 1850's was only a small bankbroker,found himself after a decade with a fortune exceeding 600.000fr.Success was so sudden that,as Syngros himself put it, "The limit I had set for myself was 300.000fr...When however I saw my fortune increased beyond my expectations I decided to set a new limit of 1 million fr" [SYNGROS(1908)II,29-30].Needless to say,Syngros changed the limit he set to himself many times.

A further indication of the profits realised through these transactions during this early period was the annual charge payable for the service of the short term loans conducted between the Government and local bankers.According to the report of Lord Hobart and M Foster,in 1859/60,the Ottoman government was obliged to pay 17.million fr for its internal debt alone [A&R(1862)LXIV,493].

In fact,short term advances were the most important activity of Greek banking in Con/ple.As will be shown,Greek bankers were generally only indirectly involved in the Ottoman loans.They were mostly associated with the service of the Ottoman Public Debt,rather than with the issuing of loans.The Ottoman loans were almost exclusively raised in European money markets,and Greek bankers participated only marginally.However,the fact that Greek banking capital abstained from the syndicates which issued most of the Ottoman loans does not necessarily imply that Greek bankers were unwilling to participate in these loans.Nor,in addition does it mean their capital was insufficient for such ventures.After all the issuing of Ottoman loans never did rely upon the capital proper of a particular group.It was always dependent on public subscription.The Greek bankers' abstention was mainly due to the fact that in the Western markets they could not compete with European contractors.The latter were in a position of power since they were backed by powerful groups of European capitalists.Greek bankers participated in the issuing of Ottoman loans when this suited the European contractors either because they relied on the

Greeks' experience and knowledge or because they used a particular group of Greek bankers against another rival group.

This was for example the case with the participation of the Societe Generalle de l'Empire Ottoman-a bank in which Greek capital played an important if not decisive role-in the Pinard loan of 1869.By that time,three major coalitions had been formed to the issue the Ottoman loans:the group of the Imperial bank,which included the powerful Credit Mobilier of Paris;the group of the Societe Generale of Paris,which included the Credit General Ottoman;and the Galata bankers.In connection with the loan of 1869,the group of the Imperial bank had been involved in negotiations with the Ottoman government as early as August of 1869.During the first week of September however,the Imperial bank decided not to participate in the new loan [NEOLOGOS,7/9/1869].The Societe General de l'Empire Ottoman along with the Credit General rushed to fill the gap.Yet,on the 16th of November,the Credit General opted out,and the Comptoir d'Escompte came to take its place [NEOLOGOS,16/11/1869].A week later,Neologos announced that"the Societe Generale of our town joined the Comptoir d'Escompte in the conclusion of the loan of £12 millions." [NEOLOGOS,23/11/1869].The syndicate providing this loan included some of the most emminent Greek bankers,such as Zarifi and Christaki Zografo Effendi,who also participated in the bank's board of directors [NEOLOGOS,23/11/1869 and 14/12/1869,SYNGROS(1908)II,201,DU VELAY(1903)287-288].Pinard who at the time was the managing director of The Comptoir d'Escompte of Paris,succeeded in elbowing aside both the group of the Societe Generale of Paris,and that of the Ottoman Imperial bank,in order to issue the loan.However,he left the issuing of the loan in Co/ple in the hands of the Societe Generale which,in the event,successfully raised 98.000 bonds of the loan through public subscription [DU VELAY(1903)288].In connection with the issuing of this loan,Neologos of Con/ple reported optimistically that "Besides,the Societe Generale of our city,which enjoys the confidence of both the public and the government,has such an experience that we have no doubt that the public of our city should trust it for the final promotion of the operation." [NEOLOGOS,16/12/1869].Since that was the first,and last,attempt of the Comptoir d'Escompte to involve itself in Ottoman finances,it is reasonable to assume that it had to rely on the experience of the Societe Generale of Con/ple.In addition,one should not underestimate the influence of Greek bankers in the Ottoman government.As the Societe was already involved in the negotiations,Pinard was undoubtedly willing to accept its participation in the issuing of the loan.

A somewhat different case is presented by the participation of the Banque de Con/ple,a purely Greek bank,in the issuing of the 1873 Ottoman loan.On 13th August 1873,the Ottoman government contracted a loan of £30 million with the Credit General,the subsidiary company of the Societe Generale of Paris,the Banque de Con/ple and the Credit Mobilier of Paris [ANF30/356,letter dated 13/8/1873,FO78/2269,telegram dated 4/8/1873].The Banque de Con/ple subscribed for 20 percent ferme,while the remainder was equally divided between the other two institutions.In this case however,it was not the lack of experience which led the European contractors to include the Banque de Con/ple in the loan's syndicate.According to a Greek newspaper,it was the management's skill which permitted the bank's final participation in the loan [MELLON,26/3/1874].In fact,the entry of this Bank into Ottoman finances,was characterised by audacity and inventiveness.It appears therefore,that the management of the bank did not want to restrict its operations only to traditional transactions with the Treasury.Had the future of Ottoman finances not seemed so gloomy,the bank would certainly have been involved in other similar operations.

These were the major cases where Greek banking capital participated directly in the Ottoman loans.The economic environment,defined by the predominance of European capital,left little room for Greek bankers to benefit from the issuing of Ottoman loans.With time,European capital became capable of conducting loans with the Ottoman state without the mediation of Greek and other native bankers.Hence the latters'role in the issuing of the Ottoman loans was inevitably reduced.

This is not to say that Greek bankers did not buy large amounts of Ottoman bonds.There were cases where individual Greek bankers held large numbers of Ottoman bonds.For example George Zarifi was"one of the largest holders of the Ottoman loan of 1871 and of other loans." [ROSE and STANIFORTH(1875)45].They usually had at their disposal large quantities of Ottoman bonds granted to them as security for short term advances to the Ottoman government.Most of the time these bonds were in their turn used as security to obtain credit in Europe.It should be pointed out,however,that Greek bankers never kept these titles for long periods of time,simply because it was dangerous for them to become too involved with less liquid forms of investment.Instead they needed liquid assets.Keeping titles for long periods of time meant they could not avail themselves of the increasing financial opportunities.In addition the income deriving from these titles was not only negligible but unsafe as well because as early as 1866 the Ottoman government faced insuperable problems in paying the interest on its public debt.

Nevertheless,Greek bankers were heavily involved in transactions with Ottoman bonds when the latter were finally accepted in European stock exchanges in 1865.Syngros's transactions in bonds of the Pinard loan present a typical example.Syngros borrowed money in London,pledging large numbers of these bonds as security.When he returned the money he found his creditors had sold his titles on the Stock exchange and were not in a position to return them on the prescribed date.Syngros found this an excellent opportunity.After thoroughly researching the market he found that large numbers of these particular bonds were in the hands of investors who kept them for income purposes and they were therefore in short supply.He then started purchasing large amounts of available titles through his agents.As a result the prices of these bonds were pushed up.When the expiry date for the return of the titles came,Syngros's creditors were still not in a position to return them and thus became his debtors.They either had to pay him interest on the value of titles pledged to them,or they had to buy similar titles in order to return them to Syngros.Since the market was in short supply they bought these titles from people working on Syngros's behalf.In this way Syngros succeeded in making a profit of £20.000;the nominal value of bonds Syngros bought was equal to £600.000.The operation lasted less than a few weeks [SYNGROS(1908)II,274-281].

However,if Greek bankers did not directly involve themselves in the Ottoman public Debt,they did so indirectly.They provided the money with which the government paid the interest on the Ottoman Public debt.To this extent the Greek banking houses functioned as a conduit for European economic penetration.Although the contracting of short term loans with the government was a relatively autonomous process from the Ottoman loans,it was,however,the other side of the same coin,namely the introduction of foreign capital into the Ottoman empire.

As already pointed out,the largest single item of expenditure after 1865 was the service of the Public debt (see above,Ch.II,57).The Ottoman government found two ways of dealing with these payments;new loans raised abroad,or short term advances provided by native bankers.The former expedient has already been discussed.On the other hand short term advances to the Treasury for the purpose of paying the interest on various issues of Ottoman loans also look impressive.By the early 1860's the volume of the Ottoman internal debt,a large part of which consisted of short term advances to the Treasury,had exceeded £T 25 million.Until that stage,however,short term advances were contracted mainly for the purpose of financing the Ottoman administration.Instead,short term advances contracted for the service of the Ottoman Public debt saw a rapid increase only after the mid 1860's.Paradoxically,that was the result of the 1865 loan which the government raised in order to convert its internal debt into a unified General debt.As has already been mentioned this loan caused a major shift in Ottoman expenditure (see above,24).Thenceforth,the contraction of short term advances in the Con/ple money market became a major expedient for servicing the Ottoman debt.

In addition the 1865 loan brought some changes on the Con/ple money market.The conversion of bonds of the Internal debt was compulsory and old documents could only be exchanged with new ones bearing a lower interest rate.In addition the titles of the General Debt were placed in European stock exchanges,the first time that Ottoman bonds had been accepted there.Local bankers did not react simply because they considered the occasion as an opportunity to sell their titles in London and Paris or to use them as a guarantee in order to get credit from European houses.Zarifi,in one of his letters to the National Bank of Greece,showed no signs of anxiety. "The conversion...proceeds successfully despite reactions abroad.Until today the value of titles presented for conversion exceeds £3 million" [ETE,letter dated 9/11/1865].Syngros recounts in his memoirs that Greek and other local bankers benefitted from the conversion only marginally [SYNGROS(1908)II,71].Moreover he claims that after the conversion had taken place,native bankers were not in a position to charge the government with figures of 20-24%.Although Syngros's account is obscure on this point,one may assume that the monopoly of credit enjoyed by local bankers was severely affected.However,this is only partly correct because local bankers were still in a position to advance large sums to the government.But the remarks of Syngros are correct to the extent that he recognised that the Ottoman state could find cheaper money by just tapping the European money markets directly without the mediation of local bankers.Yet the Ottoman state had had this alternative since 1863,when the establishment of the Imperial Bank created a major conduit for foreign capital investments in Turkey.

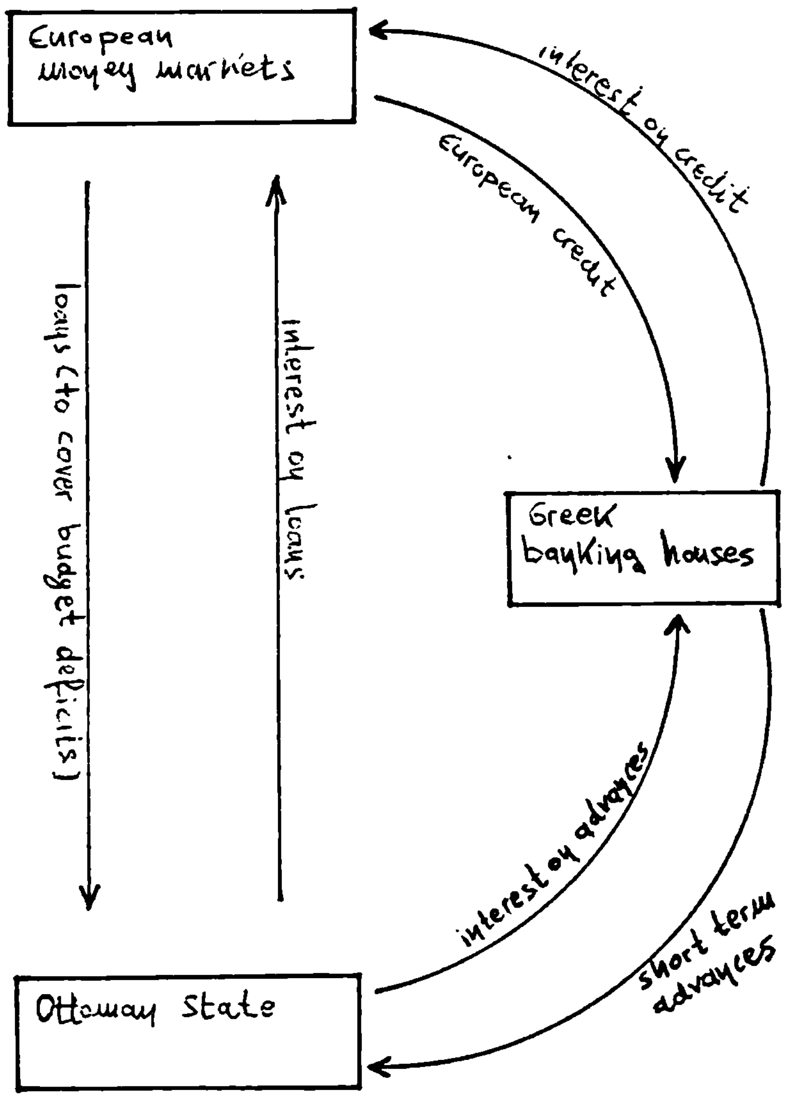
Although the Ottoman government had proceeded with the liquidation of its Internal debt it could not prevent it from rising again.In fact,the State's financial embarrassments in connection with the service of its Foreign debt dated back to 1866.In April 1866 the coupons of the 1865 loan[General Debt] were paid only when the government contracted a loan with some of the native banking houses [Report by BARRON(1866-1867)461].A year later a new advance from the Imperial Bank and the Societe

Generale again assured the payment of the coupons of the same loan [Report by BARRON,op.cit,460,DU VELAY(1908)277].After that date several short term advances were conducted for that purpose.

The financial position of the Empire worsened in the late 1860's.The Cretan insurrection proved a heavy burden on the Treasury and consequently the Ottoman government was not in a position to pay off the coupons of several of the Ottoman loans.Poor harvests and drought during the early 1870's,further reduced the Porte's ability to service the payment of its debt.In addition,the more loans the government raised abroad the more it became dependent upon the banking houses of Con/ple,including the Imperial Bank.As revenues,although increased,could not match expenditure,the only solution was to raise a new loan in Europe.As the service of the new loans could not be achieved the government had to resort to the local money market[see tableII].This vicious circle in practice continued until 1875,when the government was forced to suspend payments on its foreign debt.

According to the correspondence of the house of Zarifi with the National Bank of Greece,short term loans were contracted more often during the early 1870's.Unfortunately Zarifi's correspondence with the Bank did not present a complete account of all short term advances contracted during that period,simply because these affairs did not interest the National Bank.This material refers to the Bank's affairs in Con/ple,the placing of the Greek loans on the Con/ple money market and the affairs of the house of Zarifi & Zafiropoulo in Greece.Zarifi,therefore,only informed the bank occasionally and then only with regard to the repercussions these advances had upon bills of exchange,drafts etc in the Con/ple money market.

The advances contracted in January 1873 present a typical



ble II ;The interaction of loans, budget deficits, and short term advances.

example.In this month,the government contracted three short term loans with local bankers.There is no doubt that Zarifi participated in all of them because his account is very detailed.A loan of £300.000 was contracted on 16 January 1873.The second of £800.000 was conducted on 28 January followed two days later by a third one of £1.2 million [ETE,letters dated,17/1/1873,29/1/1873 and 31/1/1873].Presumably these advances were devoted to the payment of coupons of several loans expiring in January 1873.

The Porte's increasing financial difficulties in paying its debt inevitably led to the contraction of more short term loans in the money market of Con/ple.Local bankers,realising the serious effects a suspension of the payments on the Public debt would have on their affairs were willing to advance the necessary amounts.A year before the suspension took place,the Ottoman government had come to rely more on the advances of local houses and of the Imperial Bank than European capital [SYNGROS(1908)III,27].According to a letter of Homberg,the inspector of Ottoman finances to the French Foreign Secretary,a few months before the suspension of payments "the current account of the bank[Imperial] had been entirely absorbed while the capital of all local establishments was already heavily involved in short term advances to the Treasury which nevertheless lacked the necessary amounts of bonds to place as security.....The fear that a suspension would have disastrous effects...forced local bankers to assure once more the payment of the coupons of April[1875]with an advance of £1.5 million" [AN F30/356,report dated 31/1/1876].Short term advances used for the service of Ottoman loans assumed enormous proportions during the late 1860's and early 1870's.Unfortunately,there is no detailed information about the total capital involved in short term advances to the

Treasury.There is evidence to believe however,that after 1865 the amounts of capital engaged each year in these advances exceeded 130 million fr.The development of the floating debt during the early 1870's is the most revealing indication of the volume of short term advances.

TABLE III:The volume of the floating debt,1862-1875,(in fr).

1862	272.519.650	a)
1872	271.960.000	b)
1873	280.000.000	c)
1874	330-340.000.000	d)
1875	400.000.000	e)

Sources:a)Report by Barron(1866-67),443,b)Report by Rumbold A&P(1872) LIX,389,c)AN F30/356,d) AN F30/356,e)BILLIOTI(1908),48

The reason why the floating debt remained stable until 1873 and then rapidly increased was that more short term advances were needed to service the Ottoman debt.As a consequence the floating debt never fell below 250 million fr.Not surprisingly this debt was again almost entirely in the hands of local houses [AN F30/356,letter dated 29/12/1873].It is worth stressing that the government raised two loans,each of £10 million,during 1872 in order to reduce it.[FO78/2216,letter dated 3/4/1872,FO78/2218,letter dated 8/8/1872].Yet,the floating debt continued to rise.

It should be pointed out,however,that apart from being an indication of the volume of short term advances,the development of the floating debt was also an indication of the increasing cost of internal administration.Although the largest part of the debt consisted of advances devoted to the service of the Public debt,the remainder was made up of advances to individual

Departments.Credit was granted to these Departments by the same houses which advanced to the Treasury namely local bankers.In return the Departments pledged bonds drawn on provincial Treasuries as security.Syngros,describing his dealings with the Department of War,recounts that "we discounted such bonds at 70-80% paying usually with the mandates we had at our disposal.But even in the cases where we paid in currency....we were able,due to the influence our house had on senior Ottoman officials,to collect our money from provisional Treasuries within a short period of time."[SYNGROS(1908)II,183-4].Similar operations were conducted with regard to bonds and other promissory notes provided by other Departments.

In the event,Greek bankers were in a position to control a large part of the floating debt.Syngros,who by late 1868 had assumed a prominent role in Ottoman finances,introduced the method of mandates in his dealings with the Ottoman government.According to him,his house accepted as security Treasury bonds payable to London by the branch of the Imperial bank in this city.The arrangement was that the bank would pay the Treasury bonds only when it received money to do so.Instead of holding Treasury bonds until maturity,Syngros preferred to discount all bonds at his disposal in Europe.He then lent the money to the government charging it at 12%,while he himself paid a discounted interest of 3-4%.During late 1869 his house was involved in similar transactions to the extent of £700.000.Similar operations went on during the early 1870's and Syngros and Zarifi discounted Treasury bonds valued at least £1.000.000 every year [SYNGROS(1908)II,180-181,277-279].The product of the discount was once more lent to the Ottoman government to pay the coupons of various loans.

Another indication of the extent to which Greek capital was involved in these short term advances is provided by a Table published in the Levant Herald concerning the short term loans contracted by the government between November 1871 and March 1872.

TABLE III: Local loans contracted between November 1871 and March 1872(in £T).

Advance from the Societe Generale:	1.400.000
Advance from the Banque de Conple:	600.000.
Advance from the Austro-Ottoman Bank:	600.000
Advance from the house of P.Clado:	100.000
Advance from the Austro-Ottoman bank:	300.000
Advance from the house of Coronio&Cie:	300.000
Advance from the Imperial Bank:	400.000
TOTAL:	3.800.000

Source:LEVANT HERALD,4/May/1872,quoted in Rumbold,1872:A&P1872 LIX.

According to the table it appears that Greek capital participated directly in the largest part of these advances.The Societe Generale,a largely Greek concern,the Banque de Con/ple,a Greek bank,and Coronio and Clado,two Greek bankers provided the Porte with £T 2.4 million within a period of six months.The picture presented by the table describes the situation quite accurately.Since the financial needs of the Ottoman government were in reality increasing it is reasonable to assume that Greek capital played a very important role in this process.With the exception of the Imperial Bank which in 1874 obtained substantial power,Greek capital assumed the leading role in financing the Ottoman government (see also below,Ch.VIII).

However,the government's increasing loans from Greek and other local bankers resulted in a heavy financial burden.Short term loans were renewed rapidly,thus obliging the government to pay high interest rates on ever-increasing amounts of money.In March 1874,the government had to pay interest of almost £2 million on its floating debt of £13.386.363,i.e 16% on average [THE ECONOMIST,11/4/1874].The situation became so onerous that Rumbold,the British Charge d'Affairs,even considered that the contraction of short term loans was ruining Ottoman finances.In connection with a recent advance he wrote that "The Grand vizier assured me that through the recent advances obtained by the Porte,although of a ruinous rate,the government is provided with the means of meeting all its engagements up to the month of March[1874]....That the resources of the Empire are sufficient I truly believe...but it is another question whether they can be made by Turkish statesmen surrounded as they are by a horde of Greek and Armenian bankers to whom they appeal for advice and who without scruple made enormous profits from the necessities of the government which they consequently have no wish to see conducted upon sound principles.Unless the system of carrying on the government by means of advances at ruinous rates of interest from the Galata houses can be effectually broken up,it is impossible not to see that a fatal crash cannot be indefinitely deferred." [FO78/2212,letter dated 14/11/1873].

The remarks with regard to the Galata bankers were certainly exaggerated,because they were as anxious as the government to stabilize Ottoman finances.Yet,it is debateable whether interest rates were in fact as heavy as the report described them.According to the report presented to the annual meeting of the shareholders of the Credit Ottoman in 1873,interest rates in Con/ple had fallen from 15% to 10% [DU VELAY(1903)305].This reduction seems quite remarkable and it is correct as far as the exceptional year of 1872 is concerned.During the late 1860's and early 1870's however,10% was the lowest figure charged and this was on long term loans.On the other hand interest rates undoubtedly increased when the solvency of the Ottoman state was declining.In his letter of the 5th of March 1874 to the French Foreign Minister,De Vogue reported that the local bankers were reluctant to advance money except at rate of 30%.During this year the London capital market had lost confidence in Turkey's solvency and it became almost impossible to raise a loan there.De Vogue,realising the damage which a suspension of the service of the public debt would cause to French holders of Ottoman bonds,urged the French minister to intervene on Turkey's behalf and to assist in raising a new loan in Paris [AN F30/356,letter dated 29/12/1873].

However,the first six months of 1874 should also be considered as an exceptional period because European capitalists thought the suspension of Turkey's payments imminent,while local bankers realising the risk to their money were also reluctant to lend to the government.Yet,since an Ottoman insolvency would affect them dramatically they were willing to advance,but at a high rate.However,there is evidence to suggest that during the period under discussion interest rates on short term loans varied between 12 and 18%.Higher figures were also charged but only on exceptional periods or on very small sums.For example,the French ambassador reported the contraction of a loan of £4.000 bearing an interest of 24% [AN F30/356,letter dated 5/11/1873].However,these figures,although not uncommon,were not usual.

Rates of profit and the development of banking institutions in Con/ple.

One may assume therefore,that in spite of the large sums of capital introduced in Turkey during the period under discussion interest rates remained high.This could be explained by the fact that,although credit was provided regularly,capital did not reach adequate levels of accumulation.This development is highlighted by the dependency of Greek and other local bankers on the European money markets.These bankers would never have been in a position to finance the Ottoman state without having access to European credit.The explanation of that inadequacy is to be found in the options of capital investment in Turkey.The most important factor affecting investment choices was the rate of profits.And in Turkey,short term loan and other banking activities yielded the highest possible profits.Not surprisingly,therefore,local capitalists invested and reinvested their money in short term loans to the Treasury totally neglecting other sectors.For example apart from the establishment of public utility companies,such as the Societe des Tramways and the Compagnie des Eaux de Con/ple Greek and other local bankers eschewed investing in sectors other than that of Ottoman finances (1).

In addition,industrial investment was non existent.Local capitalists obviously did not wish to be involved in non-liquid forms of investment,because their affairs with the Treasury required liquid assets which they could circulate effectively and rapidly.Moreover,industry in Turkey was negligible.If one includes the inadequacies of transportation,the cost of conducting industrial activities was very high.Therefore industrial investment certainly did not appeal to local bankers.A contemporary authority on the subject was bewildered if not indignant at the insistence of local bankers in not investing in productive sectors,failing to understand that high profits were the only criteria of investment [DU VELAY(1903)305-306].

However,abstaining from investments in industry,not only associated them as closely as possible with the Ottoman state and its financial needs,but also deflected their capital from involvement in a sector which in the long term would have provided a stable economic basis.Of course these remarks have only relative importance for the simple reason that capital flows where it receives the highest returns.Greek and other native bankers were more anxious to enjoy high profits than to invest their money in a sector which at the time was not profitable.Had industrial investments been profitable,there is no doubt they would have participated.

Conversely,during the period under discussion,short term advances provided far higher profits than any other field of investment.The Ottoman government was willing to pay high interest rates to meet its immediate necessities.Local bankers,therefore,were only happy to advance their money since they enjoyed high returns.Yet these bankers were not the only capitalists who benefitted from this process.European capitalists as well,made enormous profits out of the Ottoman state.For example,the interest which the government agreed to pay when contracting loans abroad varied between 6-7% on the nominal sum of each loan.But as the Ottoman loans were issued at a considerable discount the real interest exceeded 10%.In addition it should be pointed out that native bankers lent their own capital,which means they were taking the risk of losing part,or all,of it.Conversely the European syndicates which issued the Ottoman loans were liquidated as soon as they disposed of the bonds through public subscription.Therefore the figure which local bankers charged the government was higher because it involved higher risk.In this way capitalists found it more profitable to advance to the Treasury although this decision affected to a large extent the capabilities of the Ottoman economy.

Yet,high rates of profit were mainly responsible for the expansion of banking activities and the development of banking proper.During the mid 1860's Con/ple had become a "nouvelle Californie" where profits could be made in the easiest possible way and with practically no risks.Transactions with the Ottoman government were considered to be quite safe since the latter pledged sufficient securities.In addition the financial conditions in Europe allowed the introduction of large amounts of capital into the Turkish capital and the Ottoman empire in general.Moreover,the concept of the joint stock company was rapidly spreading among capitalists in Con/ple.During the period under discussion,the idea that joint capital could inaugurate development or at least provide large profits became the starting point for most of the new institutions.Individual Greek bankers continued to operate,but to a lesser or greater extent were also involved in joint stock companies.The case of the Zarifi & Zafiropoulo house presents a typical example.Both bankers found themselves associated with almost every newlyfounded institution in Con/ple throughout the period under discussion.Zarifi in particular,who,according to the special envoy of the Credit Lyonais in Con/ple Kleinmann,was "un banquier excellent",was more interested than his partner in promoting the establishment of new companies.Yet there is evidence to suggest that apart from a few occasions,such as their participation in the Societe Generale and the Banque de Con/ple,they always limited their participation so even the bankrupty of a company would not affect their interests dramatically.Although they played leading roles in the establishment of companies,such as the Societe Minerale Ottomane and the Regie des Tabacs de Con/ple they always encouraged the participation of others.Unfortunately there is no information about the exact amount of capital they employed in these operations,but the catalogue of the companies and banks they were part of is certainly impressive (2).

In 1864 two new companies,based on the model of joint stock societies,were established in Con/ple:the Societe Generale de l'Empire Ottoman,and the Ottoman Financial Association.According to Syngros, the first bank was founded by G Zarifi,G Zafiropoulo,J Stefanovic-Skilitzi,E Baltazi,A Ralli,and Cammondo [SYNGROS(1908)II,79-80].Unfortunately his account is not complete because,apart from these Greek capitalists other participants in the Societe were the European houses of Oppenheim and Alberti;that of Fruhling and Goschen;that of Bischoffsheim;and most important the group of the Imperial Bank [DU VELAY(1903)200,BOUVIER(1962)684].The capital of the bank was £2.000.000 divided into one hundred thousand shares.From these,6,500 were offered to the public of Con/ple through public subscription,26,500 were reserved by the Ottoman bank for English subscribers and the rest 67,000 were reserved for the founders of the bank [DU VELAY(1903)200].According to its statute the bank would participate in the loans of the Ottoman government,as well as in the advances made to the Treasury or individual Departments.The bank would trade bills of exchange,drafts and other commercial paper.It would also reserve the right to participate in the establishment of new banking institutions or in any commercial or industrial company.Moreover,the bank would undertake tax farming contracts,either on its own account or on behalf of others.In addition,the bank would issue bonds,although to a limited extent [IMEROLOGION TIS ANATOLIS(1878),277-278].

According to the report of Kleinman,the special envoy of the Credit Lyonnais in Con/ple,the Societe Generale was a subsidiary company of the Imperial bank which was established in order to deal with those affairs the Imperial bank could not handle because of restrictions in its statute [BOUVIER(1962)683-684].Although there is evidence to support this statement there is also evidence to suggest that the Imperial bank was not in a position to control the Societe Generale.There is no question that the Ottoman bank wished to influence the affairs of the new bank to a greater than to lesser extent.But as William Gray,the director of the Imperial bank,explained to the shareholders at their annual meeting in 1864

"The idea which led the bank to join the project was that in Turkey were two distinct spheres of action in finance and trade.For all such matters as related to intercourse with the west of Europe....the Imperial bank was the appropriate instrument.But on the other hand,there were many financial operations connected now with the government ,others with municipal bodies,and others again with individuals,in which local experience,knowledge,and connexions of the native bankers and capitalists of Con/ple made them the most fitting instrument.It became clear...that a combination might be formed between the bank and those parties....and it is the feeling of the directors that it was far better to have such persons as friends and co-operators with the bank than as rivals." [Cited in LANDES(1958)65].Although it is impossible to determine the exact influence of Greek bankers on the management of that institution,it appears to have been substantial.Greek capitalists participated in all boards of directors between 1872 and 1882 and most of this time formed the majority (3).Besides the Societe Generale and the Imperial bank were found on different sides at least once:when the Pinard loan of 1869 was contracted.As already pointed out,the influence of the Imperial bank had diminished dramatically after 1865 when the rival groups of the Societe Generale of Paris and the Credit Ottoman,as well as that of Comptoir d'Escompte succeeded in depriving the bank of participation in all the Ottoman loans raised between 1865 and 1873 (see above,Ch.I,31).Therefore one may assume that the influence of the Imperial Bank upon the Societe Generale had to a large extent diminished after 1865 while that of Greek bankers increased.

The participation of Greek capital was certainly less influential in the case of the Ottoman Financial Association which was founded a few months after the Societe Generale.The bank was the creation of Lewis Farley,backed by a group of English capitalists headed by P Kitson who was simultaneously the Director of the London based International Contract company [FARLEY(1865)15].Farley however,secured the support of some of the Greek bankers and merchants who had been overlooked by the Societe Generale:Stefano Mavrokordato,a leading merchant and banker of Conple,and Pittaco and Constandinidi,two of the leading merchants of Smyrna [LANDES(1958)66].The bank's capital was £1.000.000 divided into 20.000 shares of £50 each [ISKENDER(1874)79].The bank was founded with the aim of conducting commercial banking both in Smyrna and Con/ple.In the event,however,the London committee to which the bank's policy was entrusted was more interested in financing European than Turkish enterprise,and the bank's branches in Con/ple and Smyrna were deprived of the necessary funds to conduct their business properly [FARLEY(1865)7-8.10-15].According to a letter from Mavrokordato to Farley,only a few months after the establishment of the Association in Con/ple the situation looked desperate: "I see with regret that our rivals succeed.The Societe Generale has concluded a loan for the Government;we on the the contrary,sink daily on account of the bad position that the Executive committee in London have created for the branches....I rely on you for finding the way of saving the interests of the bondholders and our own honour."[Cited in FARLEY(1865)10].Despite the attempts of Farley and Mavrokordato to deflect capital to business conducted in Turkey the Bank was almost completely destroyed one year later [LANDES(1958)66].

The economic situation within Turkey was favourable for the creation of new combinations.The expectation of high profits was the most important factor prompting the foundation of many new establishments between 1868 and 1873.During this period,companies with insufficient capital were liquidated only to be replaced by new ones.This was the case with the two major Greek houses which started operations in September 1868:the house of Syngros,Coronio & Cie and that of Camara and Clado [SYNGROS(1908)II,154-170,see also NEOLOGOS,8/6/1868].The history of the establishment of these two houses reveals not only the delicate balance among individual interests,but also the financial habits of local bankers.

Syngros cooperated with Coronio after the Company of the latter,Camara & Coronio had been liquidated in the middle of July 1868.According to Syngros it was thanks to the inducement of Nassim Cammondo that he finally decided to accept Coronio as his partner.Coronio's reputation among the financial cycles of Con/ple was bad because,although an efficient banker,his activities as a speculator on the stock exchange and his extravagances made him inappropriate for trustworthy banking operations.Syngros points out,however,that Cammondo's interest in Coronio's future was not only personal, "The position of his house[Cammondo's]did not permit him to pay daily visits to the Turkish Ministries or to confer with the people in the middle and lower echelons[of the bureaucracy],people he needed most in order to do business with the Government.He knew however that Zorzis[Coronio]was extremely efficient in this job..." [SYNGROS(1908)II,158-159].In this way Cammondo attempted to combine Syngros's inventiveness and aptitude with Coronio's efficiency in dealing with the Ottoman bureaucracy for his own affairs.In return he promised Syngros that he would include him in every operation he was going to conduct in future with the Ottoman government.Similar combinations were an everyday reality in Con/ple where the capabilities of individual bankers counted for more than the capital they employed,and the success of banking affairs relied mostly on management.This is highligted by the way profits were allocated.According to the statute of Syngros's house the allocation of profits would be as follows;55% to the management and 45% to the share holders.In addition one might assume this allocation was more generous to the shareholders than was usually the case [DERTILIS(1979)28-29].The capital of Syngros's house was modest,reaching only £120.000.Syngros himself paid up 35.000,Coronio 10.000,and Scouludi,the third member of the management,5.000.The remaining 70.000 was paid up by the shareholders.

On the other hand the house of Camara and Clado had secured the support of the "big" Greek bankers,Zafiropoulo,Zarifi,Stefanovic-Skilitzi and Zografo.Most of them,with the exception of Zarifi,who opted for participation in both houses,distrusted Coronio deeply and thought any affiliation with him disastrous.In addition,Camara,who would later become famous as the private banker of the Russian ambassador Ignatief,had also secured the support of the Imperial Bank [SYNGROS(1908)II,177-179,BOUVIER(1962)683].Unfortunately there is no information about the capital of Camara's house,although it is reasonable to assume it did not exceed that of Syngros Coronio & Cie.In the event however,the company of Syngro,Coronio & Cie proved more successful and when it was liquidated three years later it showed profits far exceeding Syngros's expectations:35% on invested capital.

However,the most important period in the development of banking in Con/ple,particularly Greek banking,was that of 1871-73.During this period the Con/ple money market experienced an unprecedented influx of European capital.In fact,the inflow of European capital into Con/ple between 1871 and 1873 began during the Franco-Prussian war.This war saw the flight of French capital to London and Paris.As a consequence the liquid assets of the recipient banking houses in these cities increased dramatically.Soon,however,this extra capital became a burden.Given the uncertainties deriving from the war,the employment of this capital in Europe was difficult.The same was not true for the Con/ple money market.Part of this capital eventually found its way to Con/ple.Greek bankers were among those who took advantage of the situations.

Syngros's conversation with Bischoffsheim in 1870 is revealing.Syngros went to London to find credit only to discover this market was tight.When he visited the house of Bischoffsheim he believed the latter's response would also be negative.Yet,to Syngros's surprise,Bischoffshein told him that "At this moment

I face serious problems because my liquid assets have increased dramatically for my father sent me large sums from Paris which I don't know what to do with...Therefore I am pleased to hear you making this proposal of discounting transactions of Turkish Treasury bonds and I hope that we will do a lot of business together in the future."The credit Syngros got was certainly beyond his expectations.Instead of the £100.000 he had asked for,Bischoffshein offered him £400.000 with interest at 3.5% and a margin on the bonds Syngros placed as security of 20%.[SYNGROS(1908)II,262].

However,the financial developments following France's defeat affected the Con/ple money market far more (4).As a consequence of the war Vienna rose as the new financial capital of Europe.The large war indemnity paid by France found its way to the Austrian capital.Never in this city had investing fever reached such levels as those during 1871-73.Large amounts of Viennese capital were eventually introduced in Turkey.The results can be seen in the establishment of two major banks;the Austro-Ottoman bank,and the Societe Austro-Turque [Report by RUMBOLD,in A&P(1872)LIX,588,DU VELAY(1903)202-203].Not surprisingly,Greek capitalists found in this new development an excellent opportunity to expand their affairs.The first bank founded by Austrian capital was the Banque Austro-Ottomane.In the establishment of this bank participated some of the major Viennese banks such as the Union Bank and the Anglo-Austrian Bank.Along side the Austrian banks however,one finds the Societe General de l'Empire Ottoman which was also involved in this affair [DU VELAY(1903)203,MORAWITZ(1902)43-44].

Greek involvement,however,was much more significant in the second bank founded by Austrian capital.In January 1872 an article appeared in Neologos reporting that Kostas Karapanos,Cristaki

Zografo's son-in-law,and a member of the managing board of the Societe Generale,had gone to Vienna to negotiate with some of the leading banks and bankers of this city the establishment of a bank in the Turkish capital [NEOLOGOS,1/2/1872].On 13th March 1872 the same newspaper reported that "With national pride we are announcing that the Greek element of our city which first conceived and put in practise the joint stock credit companies which greatly contributed in the welfare of this country[Turkey]...has once more taken the initiative of that important affair[the Societe Austro-Turque]...as one can ascertain from the indefatigable efforts of Karapanos in Vienna." [NEOLOGOS,13/3/1872].Four days later on 17 March 1873 the announcement of the establishment of the Societe Austro-Turque was was published in Neologos.According to the newspaper the participation of Greek capital in the new bank was considerable.Six of the eight Con/politan bankers who took part in this operation were Greeks:Zarifi,Zografo,Karapano,Ralli,Stefanovic-Skilitzi and Vlasto.Alongside the Greek bankers were Cammondo and Otto Ullman,a former employee of the Jewish house of Stern of London,who had close relations with Zarifi.Not surprisingly,the Societe Generale also took part.Among the Viennese bankers and Banks participating in the Societe Austro-Turque were the Union Bank of Vienna,the Banque Anglo-Autrichienne and the house of Oppenheim.The bank's capital was £2 million,divided into 100.000 shares.The bank would be involved almost exclusively in operations with the Treasury,though according to the announcement in Neologos,it would also be involved in commercial banking and trade.The Greek presence in the first board of directors was impressive.Christaki Zografo became president of the bank,while all participating Greek bankers were also elected to this board.The banks's establishment was followed by a frenetic public subscription.In European capitals,demand for the Bank's shares reached the impressive number of 3.272.560.In Con/ple,the pulic also subscribed heavily and demand reached 118.000 shares [NEOLOGOS,19/3/1872].

However, the initial success of the Bank and the enthusiastic public subscription should have been expected.Following the end of the war in Europe the confidence of the European public in joint stock companies reached its zenith.It is no exaggeration to say the concept of the joint stock company had become legendary.And although this legend lost most of its appeal after the 1873 financial crises in Vienna and Berlin,in 1871-72 the public was very happy to buy shares in joint stock companies.The joint stock company fever reached Con/ple during the early 1870's and by the mid 1871 this process was well under way.In November 1871 there were already nine joint stock companies in Con/ple [NEOLOGOS,20/11/1871].Alongside the well-founded establishments of this city,such as the Imperial bank,the Societe General and the Credit Ottoman,one finds others which,to say the least,had no future at all.Such impressive names as the Russian Bank,The Agricultural bank,the Credit Company of Estates etc may have appealed to the public but their eventual liquidation was only a matter of time.In November 1872 Neologos announced the establishment of the German Oriental bank by Ralli,E Baltazzi and some German capitalists,an institution which never operated [NEOLOGOS,16/11/1872].Yet between November 1871 and November 1872 Con/ple had acquired at least ten new establishments.The bank of Ralli and Nomico,The Bank of Cossoudi & Verisi,the Bank of Parisi and Calouthi,the Societe Minerale Ottomane,the Societe Commerciale Ottomane,the Credit Industriel d'Orient,the Banque de Con/ple,The

Societe Ottomane des Changes et Valeurs and the Societe des Tramways [ISKENDER(1874)69-70].Most of these institutions had insufficient capital while others were totally devoid of it.All of them however,had been founded in the hope that a successful public subscription might contribute to the establishment of sufficient capital.

Not surprisingly,Greek capital participated in almost every one of these new establishments.As later experience would show,most of them proved shortlived and had to wind up their affairs when a series of financial crises broke out in Con/ple between 1873 and 1875.However two of the banks founded with Greek capital were to play an important role in Ottoman finances and,therefore,special attention must be paid to them.They were the Banque de Con/ple and the Societe Ottomane des Changes et Valeurs.

The Banque de Con/ple was founded by Syngros Coronio and Scouloudi in November 1871.Syngros and his two partners had decided to liquidate their company in April of the same year [SYNGROS(1908)III,3-4].Syngros himself was reluctant to engage its capital again in an establishment similar to that of Syngro,Coronio&Cie considering that a joint stock company ,where personal responsibilities were reduced,would be more appropriate.The reasons which led Syngros to this decision can be found in the increasing risks which his company faced after the 1869 financial crisis (see below,170).During his visit to London in 1871 Syngros had come to an understanding with Bischoffsheim to place the shares of his new bank on the London stock exchange.When Syngros had reached a agreement with his two partners,he proceeded with the establishment of the Banque de Con/ple which started operations on the 20th May 1872.The bank's capital was £1.000.000 divided into 100.000 shares.The arrangement was that the shareholders would pay the first instalment of £6 when they subscribed [SYNGROS(1908)III,3].Syngros in his memoirs recounts that "according to our statute the bank would start operations as soon as the 2/3 of the capital had been paid up.Within a few days we were offered subscriptions of 52.000 shares while the public subscription in London and Con/ple had not yet begun." [SYNGROS(1908)III,7,see also DU VELAY(1903)204].The introduction of an Ottoman bank in the London stock exchange had never taken place before.

Syngros had also secured the assistance of the Imperial bank which guaranteed the issuing of shares [DU VELAY(1903)204].Antonis Vlasto,a former Director of the Societe Generale and a personal friend of Syngros,soon joined the direction of the new bank.In addition,on Coronio's insistence,Syngros asked Zarifi to join the bank along with O Negreponte,a leading merchant of Bucharest and Zarifi's son-in-law.According to Syngros "I thought that in this way I introduced conservative elements[to the bank's management],and at the same time I was relieved of a large part of the burden." [SYNGROS(1908)III,28-9].This move,however,was accepted favourably in Con/ple.According to the Levant Herald "The Bank de Con/ple has very wisely strenghtened its board...by enrolling upon it Mr G.Zarifi and Mr O Negreponte.G Zarifi enjoys a financial reputation second to none in the Levant and is beyond all question a financial power.O Negreponte is also a man whose respectability and business qualifications render him an aquisition to the board which he has joined" [LEVANT HERALD,5/4/1875].As was to be expected the bank was to be involved in operations with the Treasury,although its statute also provided for commercial banking,involvement in public works tax farming,loans to individuals etc [IMEROLOGION TIS

ANATOLIS(1878)283].

The Societe Ottomane des Changes et Valeurs was founded a few months later by one of Syngros's rivals Pavlos Clado.After the liquidation of Camara & Clado company in 1871,Clado was also in favour of joint stock banks.His partnership with Evgenidi,who until 1871 was a private banker with a modest capital of ₺30.000 and Barker,an English capitalist living in Con/ple at the time,resulted in the establishment of the Societe Ottoman which began operations on 18th November 1872 with a capital of ₺600.000 of which only half was paid up.The bank's shares had been guaranteed by the Credit Ottoman.According to an announcement published in Neologos the bank would be involved in"the ordinary works of banking and commercial mediation and in addition would undertake any transaction with commission,abstaining at the same time from any speculative activities on bonds of wares" [NEOLOGOS,18/11/1872].In fact,the bank's statute provided for transactions with the government either on the bank's own account or on behalf of other capitalists.In addition it provided for the issuing of bonds not exceeding the bank's liquid assets [IMEROLOGION TIS ANATOLIS(1878)286-7].The Societe Ottomane was,perhaps,the only bank which was not exclusively involved in transactions with the government.The first board of directors consisted solely of the founders and there is no indication whatever of any direct participation by other Greek bankers.[NEOLOGOS,18/11/1872].

Between the years of 1872 and 1874 the Con/ple Stock Exchange of Con/ple presented the following picture.

TABLE V:

Name,	Year	Nominal Capital	Subscribed capital
Imperial bank	1864	£4.000.000	4.050.000

Societe Generale	1863	£2.000.000	1.000.000
Credit Ottoman	1868	£2.000.000	1.000.000
Austro-Ottom.bank	1871	£2.000.000	800.000
Societe Austro-Turque	1872	£2.000.000	800.000
Banque de Con/ple	1872	£1.000.000	600.000
Societe Ottomane	1872	£ 600.000	300.000
Societe commerciale	1872	£T 600.000	54.545
Bank Verisi-Cossoudi	1873	£T 200.000	36.363
Bank Ralli Nomico	1873	£ 100.000	-
Tramways	1871	£T 800.000	250.000
Company			
of the Underground	1873	£ 250.000	250.000

Sources:VALSAMAKI(1874a)35-36,NEOLOGOS,8/2/1874.

The bulk of these companies intended to involved themselves in transactions with the Treasury.However,this did not happen.Instead,most of these newly founded establishments became heavily involved in speculation.The continuous influx of capital into Con/ple during that period pushed up share prices to the highest possible level.A contemporary observer recounts that, "speculators in bonds and shares used to buy either with their own capital or by borrowing.The extent of such borrowimg usually exceeded their cash reserves five and even seven times"[VALSAMAKI(1874a)38].According to the same source profits from speculation reached 20-25% while the traditional transactions with the Treasury yielded profits of 12-18%.One realises,therefore,that during this period profits were substantial enough to tempt the most astute of capitalists.It was the "golden era" of the Con/ple money market.

Banking and financial crises.

Yet the fact that Greek and other local bankers enjoyed high rates of profit does not necessarily imply that the Con/ple money market was stable.Greek bankers were faced with a severe financial crisis as early as 1861.In fact,periodical crises in Con/ple were as common as high interest rates.Once again the inelasticity of banking investment in Con/ple was mostly responsible for the embarrassments the Con/politan bankers and other local capitalists faced throughout the period under discussion.This aspect of banking in Con/ple combined with credit restrictions in Europe usually resulted in financial crisis affecting dramatically the Con/ple money market as well as the bankers of this city.On the other hand,European credit was conditional upon two factors:political and financial stability in Europe and the ability of the Ottoman state to pay interest on its Debt regularly.In addition,political instability within Turkey also affected the money market in Con/ple although in a somewhat indirect way.The cost of suppressing inssurections inevitably restricted the Treasury's liquid assets and consequently the Ottoman state's ability to service its debt.In this case,the repercussions on the prices of Ottoman bonds were heavy,causing substantial damage to individual holders.The balance,therefore,was very delicate and if one,or a combination of,these conditions did not exist the effects on the money market of Con/ple were felt heavily:credit facilities in Europe were restricted and panic spread among the bankers and capitalists of this city.On the other hand to overcome financial crisis,large amounts of money were required and only when the contraction of credit was recalled could business go on as usual.

Of course not all Greek houses were affected by these crises to the same extent.Houses with good reputation in Europe were always in a position to get credit.This,however,was possible only at high cost,which consumed a part of the anticipated profits.Things were worse with small houses,especially these with a questionable reputation,which suffered severely.

The first financial crisis in Con/ple broke out in January 1861.It followed the failure of the Mires loan issued in December 1860,which to a certain extent was associated with the crisis.As already stated,the amount of the Internal debt held by local bankers in 1859 exceeded 440 million fr.Local bankers in their turn,were heavily indebted to European,particularly French,houses [DU VELAY(1903)164-165].They borrowed money using short term commercial paper.Syngros recounts that in this way almost all Greek bankers borrowed money far beyond their own capital.Some times they even used false drawees in per commodo transactions [SYNGROS(1908)II,30-33].Commercial paper was discounted in European houses which in their turn re-discounted it to the Banque de France or the Bank of England.Presumably local bankers used the money received in this way for further advances to the Treasury enjoining high interest rates.Not surprisingly,the Turkish government was anxious to liquidate this debt and for this reason it sought to raise a loan abroad.With the London market having no confidence in Ottoman finances,the government turned to Paris the only money market at the time purportedly willing to provide a loan.In Paris a loan of 400 million fr was successfully negotiated with Mires,the Director of the Caisse Generale des Chemins des Fer.Mires in his turn,knowing nothing about Ottoman finances found co-operation with local bankers absolutely necessary.He turned to the Bank of Turkey,the largest credit institution at the time,and offered it a place in its syndicate,an offer which was finally accepted.Three members of the Bank's managing board,Rodocanachi,Glavany and Hanson,became its representatives in the syndicate [DU VELAY(1903)159-161].The bank was assigned to place 50.000 obligations in Con/ple through public subscription.Yet,public subscription both in European capitals and Con/ple certainly did not live up to Mires's expectations.Out of 250.000 obligations only 102.000 were finally sold.One must seek the reason for the failure in the lack of confidence among the European public in Ottoman finances.Although Mires's newspaper in Paris,the Journal des Debats,attempted to soothe anxieties by exposing the positive perspective of the Ottoman economy and its unexploited resources,it finally achieved little.

The effects of the loan's failure were felt heavily upon Con/ple's money market.One might say that the failure of the loan simply precipitated an already smouldering crisis.Local bankers had thought the issuing of this loan would enable the Ottoman state to redeem them.In fact,what happened was quite the opposite [BANKERS'MAGAZINE,1861,XXI,453].The loan's failure not only left the Treasury empty,but also spread panic among the local bankers'creditors who refused to renew credit facilities.In addition,short term commercial paper payable by houses of Con/ple reached maturity and was protested by its signatories.With no credit facilities available,the position of local bankers became onerous.The value of protested commercial paper held by the Banque de France was equal to 50 million fr [DU VELAY(1903)165].According to Syngros,Greek and other local bankers in order to save their reputation were forced to dispose of all their assets:jewels,gold bullion,precious stones etc,along with all available liquid assets were sent to France to pay the bankers'debts off

[SYNGROS(1908)II,31].It was estimated that in February 1861 alone £700.000 in gold were sent from Con/ple to Marseilles [BANKERS'MAGAZINE,1861,XXI,137,204].As a consequence the losses of the Banque de France,the largest single recipient of those bills were less heavy than it was initially expected,reaching 10 milion fr [DU VELAY(1903)166].In Con/ple,many local houses went bankrupt:the houses of Rodochanachi,Baltazzi and Psychari,to refer only to the big houses,had to wind up their affairs.In addition,the Banque of Turkey was almost destroyed.Since the crisis took place,the bank's affairs decreased rapidly until 1864 when it was finally liquidated.

In addition the crisis severely affected the London based Greek mercantile houses.According to the list of suspensions published in the Bankers' Magazine,out of the 43 firms which went bankrupt between January and June 1861 22 were in the Greek trade,the overwhelming majority of which was owned by Greeks [BANKERS'MAGAZINE,1861,XXI,134-5,209,456,597 (4)].Most of these establishments conducted business with Con/ple based houses and inevitably found themselves involved in the revulsion of this market.As the Bankers'Magazine pointed out, "the value of money has naturally been regulated by this exceptional situation of things and the distrust thrown upon the Greek interests has necessitated the payment of high rates of discount especially among those whose credit has not been first class...the principal of the large establishments are...presumed to be safe except in as much as the losses they may have incurred by the by the smaller suspensions will have to be provided for." [BANKERS'MAGAZINE,ibid,138].By March 1861 it appears that the worst had passed and confidence had been restored.Yet it was only in April 1861 that the repercussions of the crisis finally subsided.The remaining Greek firms were again in a position to meet their liabilities: "the strength of the first class Greek establishments has been for the moment well tested and it is believed that their wealth and resources have been strained to the utmost to preserve their character in discount circles.In this they have no doubt succeeded but it will yet require great care and discretion to surmount the effect of the late revulsion." [BANKERS'MAGAZINE,1861,279-80].

A combination of political and financial instability in Europe along with the financial embarrassments of the Ottoman government led to the financial crisis of 1866.In April 1866 the Ottoman state was not in a position to pay the coupons of the General Debt.The war between Austria and Prussia made it difficult to raise a new loan in the European money markets [DU VELAY(1903)276-277].As a consequence the price of the Consolides[bonds of the General Debt]fell sharply.According to a letter from Zarifi to M Renieris,the Director of the National bank of Greece"these news[the war in Europe] considerably affected our market...contributing to the pushing up of exchanges,while credit[from Europe]is provided to good houses only" [ETE,letter dated,11/4/1866].Two days later in another letter he pointed out that"the distrust which is sreading in our market derives from the decline in the prices of Turkish bonds...Damages caused by this decline are substantial...and credit is restricted to reliable houses only,because these days our market lacks good payers." [ETE,letter dated,13/4/1866].

The financial crisis which broke out in London in May 1866 aggravated the situation.This crisis soon assumed serious dimensions.According to Michalis Zarifi,bankruptcies followed one another.In a letter to the director of the National Bank of

Greece,Renieris,Michalis Zarifi reported that by 17 May 1866 the total loss from bankruptcies had exceeded £ 10 million and that the Bank of England was forced to back protested commercial paper at the value of £ 4 million.As a result the discount rates of the Bank of England increased to 9-10%,an enormous increase if one takes into account that usually these rates varied between 3-3.5% [ETE/L letter dated,17/5/1866].Despite the fact that the danger finally elapsed,the repercussions of this crisis led many more companies to bankruptcy.According to Michalis Zarifi it was the import of capital from America along with the increasing hopes for peace in Europe which finally stabilized the financial situation [ETE/L,letter dated,30/5/1866].The bankruptcy of the Imperial Mercantile Association,where,G Zarifi's brother M Zarifi,had been a member of the managing board,leaving only two months before the actual crisis broke out,and that of the Oriental commercial bank of Pappas,destroyed two houses closely linked with the Greek banking houses of Con/ple [Zarifi to Vouros,Letter dated,17/5/1866 (6)].

The combination of the war,the financial embarrassment of the Ottoman government and the financial crisis in London,resulted in severe restrictions of credit.European banks were reluctant to lend their money to local bankers or to discount bills of exchange payable by Con/politan houses.As a consequence many,particularly small houses,had to wind up their affairs.Between April 1866 and June of the same year five houses went bankrupt in Con/ple:the house of Giuliani a former employee of Oppenhaim and Alberti,that of Giudi,a Franco-levantine private banker and that of an Armenian named Harens.In addition,two Greek houses also wound up their affairs:the house of Agelasto and that of Saverios-Kastelis [ETE,letters dated 11/4/1866 and,15/6/1866].The total loss amounted to £150.000.The end of the war in Europe and the short term advances of local bankers which enabled the Treasury to pay the coupons of several Ottoman loans stabilized again the position of the money market of Con/ple.

The prospects of war between Germany and France in the summer of 1869 combined with the financial embarrassments of the Treasury once more led to financial crisis [DERTILIS(1979)33].The loan of 125 million fr which accompanied the establishment of the Credit General Ottoman 1869 proved insufficient to meet the needs of the Treasury.The political uncertainty in Europe restricted credit facilities and many Con/politan bankers again found themselves in a difficult position.Between June and October of 1869 Zarifi reported the bankruptcy of five houses.In June 1869,S Treves a Jewish banker,Livanis and Anastasiadi,two Greek private bankers, went bankrupt with a loss of £30.000.In October two other houses wound up their affairs:that of Zanos & Sarafis with a loss of £50.000 and that of Rodochanachi and Agelasto with a loss of £30.000 [ETE,letters dated,16/6/1869 and,14/10/1869].The house of Syngros was also in a difficult position.When the crisis broke out this house was heavily indebted in Europe.Syngros,however,succeeded in averting bankruptcy when Sadyk Pasha,the Minister of Finance and Syngros's personal friend,returned part of the Ministry's debt to Syngros amounting to 5 million fr [SYNGROS(1908)II,202].The financial situation in Con/ple was stabilized only when the Pinard loan was contracted in November of 1869.Not inaccurately Syngros described this loan as "a true salvation for the money market of our city".

However,political instability in Europe once again resulted in credit restrictions.The war of 1870-71 between Germany and France severely affected the money market of Con/ple [Report by

Vice consul Wrench,A&P,1878(LXXIV),no 74,818-819].According to Syngros "in the middle of July[1870]arrived the news of the declaration of war in Europe...and[the news of]the decline of prices of all state bonds and debentures,particularly those of countries with questionable credit,such as Turkey whose credit was based on absolute [political]tranquillity".[SYNGROS(1908)II,213].The decline of prices of Turkish bonds was followed by panic and,inevitably by contraction of credit.On 27 July 1870 Zarifi reported that "distrust and lack of money are increasing...the position of all exchanges bonds and debentures is unstable...Transactions on exchange are limited because people here are afraid...choosing to send remittances in gold rather than exchange." [ETE,letter dated 27/6/1870].After two weeks the bank of England increased the discounting rate to 6%. [ETE,letter dated 10/7/1870].Therefore,credit from London,the only money market still in a position to advance money to local bankers,became not only more difficult to get but also more expensive.At the time the debts of Con/politan bankers in Europe were,as usual,heavy.For example,Syngros's debts in French and English houses amounted to 20 million fr.Available and cheap French capital which had found refuge in London was mobilised,thus saving the situation.In addition the panic with regard to Ottoman bonds subsided and in November 1870 the price of the bonds of the General Debt(Consolides) recovered,reaching 57.5 piastres.Local bankers were now in a position to provide acceptable securities to the European banks in order to renew their credit.In this way many Greek bankers escaped bankruptcy although at a high cost.They were forced to dispose of their titles,to have their bills of exchange discounted at a considerable reduction,or to place as security bonds with large margin.

The period following the war was,as has already been pointed out,a convenient one for the Con/ple money market.Yet in May of 1873,a severe financial crisis broke out in Vienna and its repercussions affected Con/ple to a considerable extent.Since this crisis broke out,and until the Ottoman suspension of payments in October 1875 took place,the money market of Con/ple remained in an extremely vulnerable position.This crisis differed from the others in the sense that it had more lasting effects.The roots of the crisis in Con/ple are found in the inelasticity of capital investments.The flow of capital which enabled the establishment of many banks and credit institutions did not change investment attitudes.In the event,when the Vienna financial crisis broke out panic spread among the capitalists of Con/ple.They were heavily indebted in Europe and thought this crisis would affect them dramatically.

The situation is eloquently described in one of De Vogue's letters to the French Foreign Minisrty, "For three years the Galata market has been full with shares of societies and companies founded during these years.The statute of most of them provided for industrial activities yet in reality they were all involved in advances to the Treasury and in speculation in the stock exchange...the value of the shares of most of these companies did not correspond to any productive basis...but instead was based on the plight of the Treasury,a fragile basis which was bound to collapse in a crisis:this eventually happened and two months after the Vienna crisis a sharp decline[in prices] followed,which absorbed the majority of fortunes in this place." [AN F30/356,letter dated 29/10/1873].Yet the repercussions of this crisis were not as heavy as is usually believed.In one of his letters to Renieris,Zarifi reported: "I want to bring to your attention the sharp decline of all prices of bonds and debentures which took place in our market because of the Vienna crisis...Panic and fear prevailed in our market...but fortunately the situation now shows signs of recovery," [ETE,letter dated 23/5/1873].In addition,Zarifi did not report bancruptcies of banking houses as he usually did when the previous crisis took place.In fact,the only companies which were severely affected by the Vienna crisis were those established by Viennese capital:the Societe Austro-Turque and the Banque Austro-Ottomane.The former wound up its affairs one year later in July 1874 while the latter merged with the Ottoman bank in late 1874 [YOUNG(1906)27,DU VELAY(1903)203].This is not to say that the Vienna crisis affected the money market of Con/ple only marginally.It is more correct to say that,despite the crisis,most of the banking institutions of this city succeeded in escaping bankruptcy if at a considerable loss.

The situation was temporarily saved by the loans which the Ottoman government raised in summer 1873.However,the financial situation in Con/ple remained precarious,to say the least.Moreover,the difficulties the Ottoman state had in servicing its debt increased during the years 1874 and 1875.European money markets,alerted by the continuous delays in payments were unwilling to raise new loans for the Ottoman government.In this way,a crisis deriving from Ottoman insolvency immediately followed the repercussions of the Vienna crisis.In November 1873 Layard reported that "The financial crisis which prevails in so many places is being felt at Con/ple more severely than anywhere else.Many of the largest establishments find themselves embarrassed and the government is reduced to the utmost straights

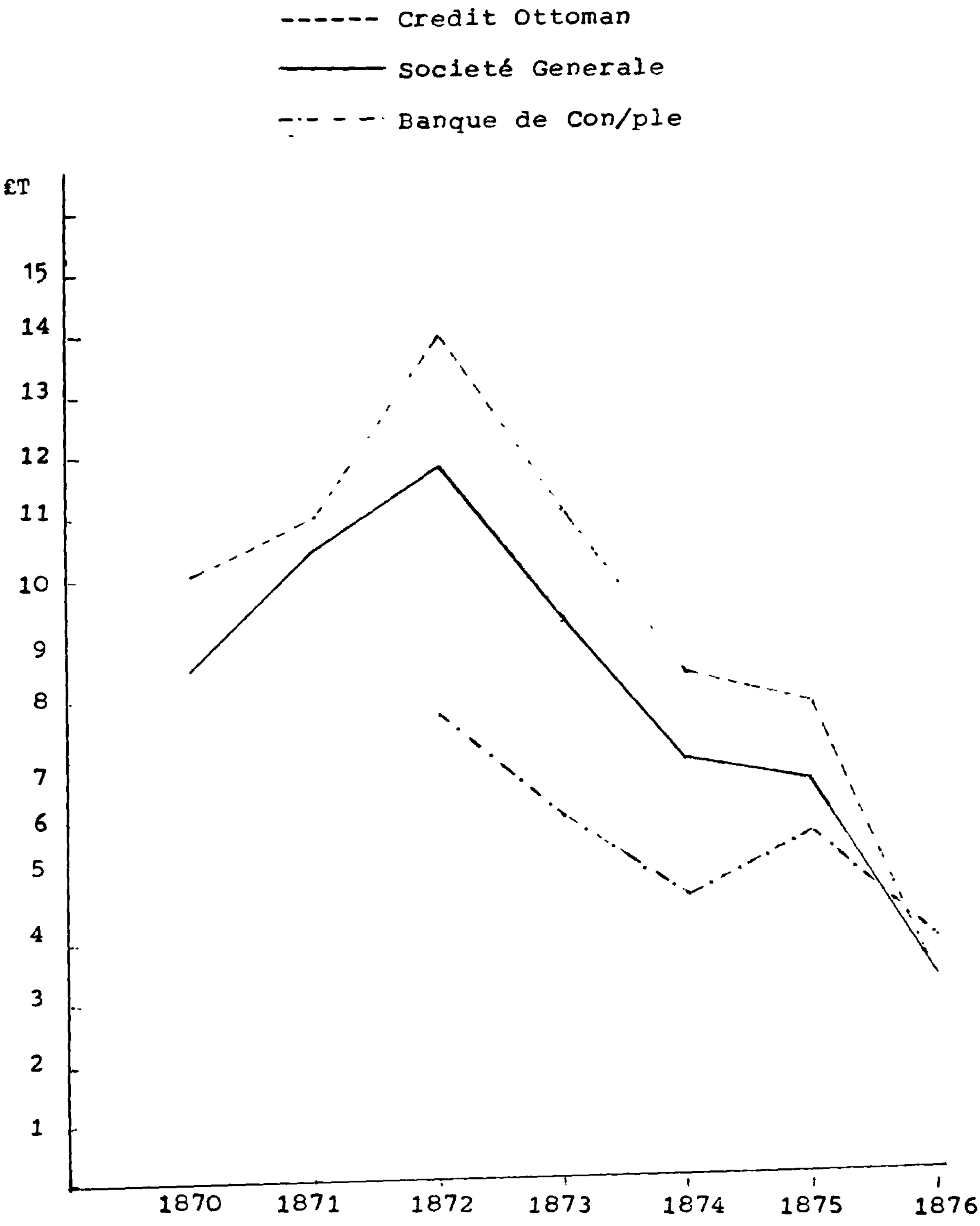


Table VI: The movement of share prices of the major banking establishments in Con/ple*.

Source: Cours des fonds found in Zarifi's correspondence with the National Bank of Greece.

*Note: Estimations based on incomplete data.

to find money for the immediate necessities of the public service." [FO78/2272,letter dated,3/11/1873].In another report,the British Vice counsul Wrench makes no reference to the Vienna crisis.Instead he ascribes the crisis to the financial embarrassment of the Ottoman state [A&P(1878)LXXIV,no 74,819].

Indeed the Empire's financial problems were largely responsible for this crisis.Local houses again found themselves in a position where they could not pay their debts in Europe.The decline in the prices of Ottoman bonds which followed the embarrassments of the Ottoman state,severely affected those companies which were mostly involved in speculation in Ottoman bonds.In the circumstances,the inelasticity of capital investment in Con/ple proved to be a major obstacle and combined with the continual problems of the Ottoman government in servicing its debt,aggravated the crisis.The panic in the stock exchange of Con/ple also affected the share prices of all the major banks.With speculators selling everything they had,the share prices of these establishments fell dramatically.In March 1874 the price of shares of the Societe Generale fell to £6 while a year before they had been priced at £13 [See Table VI].The shares of the Credit Ottoman fell from £T19 to £T7,those of the Banque de Con/ple from £9 to £4 [VALSAMAKI(1874a)40-41].Although there is no detailed information regarding the total losses incurred during the crisis,a draft assessment provided by a contemporary source puts the total damage at £3 million [NEOLOGOS,13/3/1875].

Nevertheless,the crisis of 1873 and early 1874 was followed by a financial recovery in the summer and autumn of 1874.Shareprices were stabilized and financial activities recovered.That is particularly true for banks such as the Societe Generale and the Banque de Con/ple which during 1874 showed good profits.[see below,Ch.VIII,204,211].However,in early 1875 the Ottoman government was still in a predicament.The service of the Public debt was achieved with great difficulty and at a high cost.Not surprisingly,European bondholders responded with mass sales of Ottoman bonds.Prices fell sharply,with the Consolides priced below 45 piastres.According to a report in Neologos on the 23/1/1875 the situation in the Con/ple Stock exchange was desperate with the speculators in a state of panic and fear selling shares and bonds at their disposal in order to minimise the damage.Due to increasing panic what followed was mass sales of bonds and shares.

During 1874-1876 most of the banks and companies of Con/ple involved in speculation were forced to wind up their affairs.In fact,speculation was based on financial order,and the continuous influx of capital.Once these conditions were no more,the fragile basis of these banks inevitably collapsed.The liquidation of the Societe Austro-Turque in July 1874 was followed by the liquidation of the bank of Ralli and Nomico.The increasing financial difficulties of the Ottoman government in January 1875 affected the prices of Ottoman bonds and as a consequence the position of local banks.This time the Societe Commerciale Ottomane was liquidated in March 1875 due to unacceptable losses [NEOLOGOS,3/3/1875].In addition,a decision was reached in April 1875 by the shareholders of the bank of Verisi and Cossoudi to liquidate the bank,which was finally implemented in June of the same year [NEOLOGOS,15/4/1875 and,10/6/1875].Other institutions such as the Banque des Courtages and the Bank of Parisi and Calouthi had already been forced to wind up their affairs during late 1874.Not surprisingly,in the circumstances,the money market of Con/ple experienced severe restrictions of credit because European bankers were alarmed to the prospect of an Ottoman insolvency and,therefore,reluctant to advance money under such unfavourable conditions.

In this way,apart from the brief financial recovery of summer 1874,the Con/ple money market suffered its most severe and prolonged crisis between May 1873 and April 1875.During this period almost all of the institutions founded between 1871 and 1873 were liquidated.It appears that the repercussions of the crisis were so overwhelming that they frustrated even the most ardent supporters of the joint stock companies.Neologos,a newspaper advocating the idea of association,was among the first to realise the failure.In one article it admitted that "In the East,the idea of associations(stock companies) failed,proving to be only a false image of its successful counterpart in the West...It is true that there are some well known exceptions both in Turkey and Greece...but exceptions always exist.By and large what prevailed was failure...which unveiled the miserable conditions(of stock companies) [NEOLOGOS,13/3/1875].According to the same account the failure is ascribed to the fact that most companies instead of serving the general interests of the country were involved only in speculation.The article goes to wondering "how after so many years of economic and political development of Turkey,our country lacks a modern textile industry,metal industry,paper industry,shipping industry etc".This pessimistic aproach is supported by another contemporary source.A Valsamaki with an article in Economici Epitheorisi also points out the failure of the "association" in the East ,emphasising the disastrous effects of speculation which in the period of 1871-74 was the main activity of many banking institutions [VALSAMAKI(1874a)].

Yet,these results should only be expected.The fragile basis of all institutions heavily involved in speculation certainly could not prevent the final catastrophe.Those still secured were the banks which had the prudence or wisdom not to involve themselves in speculation,at least to an extent which would jeopardise their position.These banks were the Societe Generale,the Credit Ottoman ,the Banque de Con/ple and the Societe Ottoman des Changes et Valeurs.In addition all wealthy local bankers,the Greeks included,also survived the crisis.No doubt all of them suffered damages,mostly because they were bondholders,some times to a significant extent,in all those institutions which were forced to wind up their affairs.Yet,the bulk of their capital was engaged in short term advances to the Treasury which,most of the time were sufficiently secured.

The Ottoman government declared the suspension of payments on its Public Debt in October 1875.When this happened the situation within the money market of Con/ple was already clarified.Most of the city's banks and joint stock companies had been liquidated or went bankrupt.The money market of Con/ple had suffered severe damages and the banking houses which survived the crisis faced new difficulties,namely how to get back the money they had lent to the Ottoman government.

Notes to CHAPTER VI.

(1) The Societe des Tramways was founded in 1871 by a group of local banks and capitalists,including Zografo Effendi,Zarifi,Vlasto,the Societe Generale,etc and the Imperial Bank.The concession was granted to K Karapano who also became the company's first Director.He remained in this Post untill 1876.The company created the first civil transportation in Con/ple by using coaches [PECH(1906)194-197,GARDICA-ALEXANDROPOULOU(1983)328-329].The Compagnie des Eaux de Con/ple was founded in 1874 with the puprose of providing water to parts of the city.The company would use water from the lake of Dercos located on Kara-Bouroun and then distribute it in Pera and Galata.The concession was initially granted to Kiamil Bey,the Sultan's Grand maitre des ceremonies,who after facing many difficulties sold the company to a group of European and local capitalists.This group included the Banque de Con/ple,the Societe Generale,the Imperial Bank,the Banque d'escompte of Paris,Zarifi,Oppenheim,Cammondo etc [PECH(1906)175-177,THOBIE(1977)141-142].

(2) The house of Zarifi and Zafiropoulo directly participated in the following companies:Societe Generale de l'Empire Ottoman 1864,Syngro,Coronio & Cie 1868,Clado and Camara 1868,Societe des Tramways 1871,Societe Austro-Turque 1872,Banque de Con/ple 1872,Regie des Tabacs de Con/ple 1872,Company for the encouragement of tobacco cultivation and trade 1872,Shipping company "He Pontoporia",1871,Bank of Verisi & Cossoudi 1872,Societe Minerale Ottomane 1871,Societe Commerciale Ottomane 1872,Credit industriel 1873,Bank of Smyrna 1874?,Societe des Eaux

de Con/ple 1877.

(3) The composition of the board of the Societe Generale between the years 1872-1882 was as follows:

1872:G Zarifi president,D Fernandez,A Baltazzi,S Ralli,E Devaux,Z Stefanivick,A Vlasto,M Foster,O Ulman,C Zografo.

1874:A Baltazzi president,Z Stefanovik,E Devaux,D Fernandes,M Foster,S Ralli,L Zarifi,G Zarifi,C Zografo.

1875:G Zarifi president,O Ulman,C Zografo,L Zarifi,Z Stefanovik,M Fister,S Ralli,K Karapano,D Fernandes.

1877:Z Stefanovik president,D Fernandes,G Zarifi,L Zarifi,M Foster,E Devaux,O Missirly,S Fernandes.

1879:S Fernandes president,M Foster,A Ralli,E Devaux,B Skilitsi,L Zarifi,O Missirly.

1880:L Zarifi president,Z Stefanovik,E Devaux,O Missirly,D Fernandes,A Ralli,M Foster.

1881:M Foster president,Z Stefanovik,L Zarifi,D Fernandes,E Devaux,O Missirly,A Ralli.

1882:Z Stefanovik president,D Fernandes,M Foster,E Devaux,L Zarifi,A Ralli,O Missirly.

(4) In addition,the "Great Depression" in Europe had also affected the Con/ple money market.After two years of investment abstention,due to the Franco-Prussian war,the public in Europe rushed to reinvest its money.Yet,the first signs of the Depression were apparent.Deposits on the other hand increased rapidly.In the event,European banks found their coffers full of money which they could not invest because investment opportunities in Europe were slim.Therefore,they were willing to lend this capital to Greek bankers who,as always,were expanding their affairs with the

Ottoman Treasury.Nevertheless the impact of the Great Depression on the Con/ple money market was shortlived.European banks and banking houses soon were aware of the predicament of Ottoman finances in 1874 and became increasingly reluctant to lend their money to Con/politan bankers.

(5) The crisis affected both the large and small houses.The list reports the names of Zizinias,Salvago,Maurogordato,Rodochanaki(Manchester) ,Schilizi,Vouros,Ralli,and others.The total loss of these establishments is estimated as high as £ 1.800.000 [BANKERS'MAGAZINE,1861,XXI,136,208,457].

(6) This letter is included in Vouros papers currently kept in Haritatos private archives in Athens.Many thanks are aknowledged to Katerina Boura who provided me with a copy of the letter.

CHAPTER VII:The turning point:the period 1875-1881.

The suspension of payments on the service of the Ottoman loans was the prelude to the establishment of the Public debt Administration.Did this decision surprise local bankers?To a certain extent it did,although there were signs that such a measure would be implemented sooner rather than later.The increasing financial difficulties of the Ottoman state during the last two years led to this conclusion and there is no indication whatever that the suspension could be avoided.In a letter addressed to the Earl of Derby on 7 September 1875,Sir Henry Elliot,the British Ambassador in Con/ple,reported that the Ottoman government intended to reduce the payments on its Public Debt drastically [A&P(1876)LXXXIV,2].In fact that is what happened.The Ottoman government proclaimed that the interest payments would be reduced by half,while the unredeemed part would be paid in new bonds bearing 5% interest and payable after 5 years [BRUNSWIK(1875)22-24].Not surprisingly,the prices of Ottoman bonds were substantially affected.In a letter to the National Bank of Greece,Zarifi reported that "as a consequence of this measure all values(of bonds and shares) declined.Although this decline is sharp,the position of our market seems stable and it appears that no bankruptcies will occur,unless the decline continues." [ETE,letter dated,26/10/1875].When the complete suspension of Ottoman payments finally took place in March 1876,the price of Ottoman bonds declined further:after the suspension the Consolides' price plunged to 12 piastres.

The details of this development will be discussed in a following chapter,yet one must point out that the suspension was a turning point in connection with Ottoman banking because it redefined its context.After the decision was taken,the Ottoman government found itself isolated from all European money markets.European banks and bankers which were already reluctant to raise loans on Turkey's account as early as 1874 became,after October 1875,absolutely negative.Cut off from European money markets the Ottoman government,in order to raise money,had to resort to local bankers,including the Imperial Bank.In addition the government resorted to other measures such as,the issuing of paper money(kaime),the imposition of further taxes,and the raising of compulsory loans.Under these conditions,Greek bankers were in a difficult position.They had to cope with the new measures,particularly the issuing of paper money,which could further destabilize the economy and spread confusion amongst merchants with unforseable consequenses for the exchange.

In addition the position of some of the banks of Con/ple which had been heavily involved in the Ottoman debt,and particularly the Credit Ottoman,was shaken.The Credit Ottoman' s portfolio consisted almost exclusively of Ottoman bonds and therefore its losses were substantial [DU VELAY(1903)358].On the other hand Greek banks and banking houses were affected by the suspension of payments because they also kept Ottoman bonds.However,their capital was mainly engaged in short term advances to the Treasury the payment of which had not been suspended.Yet they were anxious to safeguard the capital engaged in these advances and,paradoxically,this could only be achieved by renewing their loans to the Treasury and tried to obtain sufficient guarantees for both old and new advances.Indeed the strategy of Greek bankers during that period was to achieve the best possible guarantees for even the smallest amount of money.It appears that this strategy was finally successful.According to a letter of Harrison,the British member of the Financial Commision,to Salisbury, "The position of the present time in regard to local loans is probably materially worse than it was six months ago not only from the positive addition made to the amount of these debts but from the circumstance that debts previously unsecured and which perhaps have been arranged on better terms have now received material guarantees." [letter dated 18/4/1879,in FO78/3067].

The desperate isolation of the Ottoman government from European money markets was conspicuously manifested in the case of the 1877 Defence loan.The agreement of September 1877 between the government and the holders of the Ottoman loans of 1854 and 1877,enabled the former to secure a part of its revenue and pledge it as guarantee for a new loan in Europe.It was agreed that a loan of £5 million would be placed on the European markets through public subscription.The contractors of the loan were the Imperial bank and the London house of Glyn,Mills,Currie and Co [DU VELAY(1903)372,BLAISDEL(1929)89].Yet public subscription in European capitals failed miserably.The subscription in London amounted to £5000 and came from India.In Paris the public subscription was also unsuccessful.After this failure the Imperial bank was forced to take the loan ferme and with the assistance of the major local establishments ,such as the Societe Generale,and the Societe Ottomane the loan was finally absorbed in Con/ple.

A second attempt to raise a loan in Europe followed,this time on the part of the Financial committee (1).According to a letter addressed to Salisbury,Harrison reported that the committee had unanimously agreed to propose the raising of a loan of £20 million in Europe [FO78/3066,letter dated 18/11/1878,see also NEOLOGOS,8/5/1879].The loan would redeem the bondholders of the

1854,1855,1871 and 1877 loans.In addition it would allow the Treasury to meet its most urgent needs.Part of the loan would deal with the paper money circulation,which at the time had reached the ratio of 300 paper piastres to 100 gold ones.[FO78/3066:ibid].This attempt was rather unsuccessful since no banking house in Europe could effectively raise a loan of this sum through public subscription.The European public continued to distrust Ottoman finances and there was no sign whatever that these attitudes had changed.

Instead the Ottoman government was obliged to resort to the assistance of the local bankers and the Imperial bank.This almost exclusive reliance on local capital resources had in fact begun during late 1874.After the suspension of its debt service,by half,the Ottoman government contracted a series of loans with local bankers and the Imperial Bank in order to be in a position to service its Debt.The first of these,amounting to £T 1.500.000 was raised in October 1875 to assure payment of the November coupons.During November 1875,the Ottoman government arranged to raise three other advances in the local money market to secure the payment of the 1876 coupon.Two of them were indeed contracted in 1875 [THE TIMES,19/11/1875,see also,A&P(1876)LXXXIV,3].The third advance was finally raised in May 1876,despite the fact that,in March 1876,the Ottoman government decided to suspend debt payments entirely.These advances called the "quatre avances" became the basis of the floating debt of that period.Presumably,the advances were used by the government to cover the cost of the Administration and perhaps to fund an empty Treasury from the Balkan insurrections and the war with Montenegro and Serbia.Not surprisingly,these advances were not the only ones conducted during 1876.The Treasury,always in need of liquid assets,borrowed smaller amounts in order to meet current needs.However,since the Treasury lacked the necessary securities,it was obliged to hypothecate jewels and other precious stones.In this way Christaki Zografo,the private banker of Abdoul Aziz,received jewels valued £ 3 million as security for an advance of considerably less value [THE TIMES,5/8/1876].

The Ottoman government continued contracting short term loans with local bankers throughout the rest of the period under discussion.In addition some Greek bankers made advances to the Government on paper money [BOUVIER(1962)706].In December 1877 Zarifi had in his coffers kaime valued at £T 1.5 million presumably given as security on some of his adva-nces to the Treasury [A&P(1878)LXXXII,22].As a consequence,the floating debt remained at high levels.According to De Vogue,by the fifth of March 1877 the floating debt had reached 400 millionfr(=£16 million)of which 200 million corresponded to short term advances [AN F30/356,Letter of 5/3/1877].It was,however,during the war with Russia that the Ottoman government contracted the most important loans of that later period.The Defense loan apart,the government contracted a loan of £T800.000 with the house of Zarifi and Zafiropoulo and another one of £T 820.000 with the Imperial Bank ,the house of Zarifi and Zafiropoulo,the Banque de Con/ple,the Societe Generale and the Societe Ottomane.After the war,and due to these loans the position of local bankers had been considerably strengthened.

In November 1878,Harrison notified Salisbury that Turkey's floating debt was £T 12.783.000(=£11.6 million),and that an annual charge of £T 3.840.000 was required annually to liquidate it [FO78/3066,letter dated 4/2/1879].Fortunately,Harrison's correspondence with the Foreign Office provides a great deal of information in connection with this Debt.With his letter of 23 April 1873 he also enclosed a table of the Short term advances contracted between the Ottoman government and Local bankers between 1876 and 1879.[See table in the following page].

Harrison however reported that the table was incomplete,which seems to be correct,yet it still gives a good indication of the extent of local loans.The sum of £T 8.344.923 standing in the name of the Imperial Bank should be divided into two parts.From the total amount,£T 5.168.384 corresponded to the current account of the Imperial government,to advances to the Ministry of War and the Civil List while the £T 3.176.539 represented the remainder of the "quatre avances" on which the Ottoman bank had only a limited interest,and most of this capital belonged to local bankers.The participation of Greek capital in these advances was substantial.There is evidence to suggest that apart from the advances made directly by Greek banking houses Greeks were heavily involved in these advances standing in the names of Fernandez and Barker who was the partner of Clado and Evgenidi in the Societe Ottoman,as well in the "quatre avances" standing in the name of the Imperial bank.

What is more important perhaps are the guarantees granted for these advances.To guarantee these advances the Ottoman state was obliged to grant some of its most productive revenues.The loans of Zarifi for example,were secured with all indirect revenues.[FO78/3067,letter dated 23/4/1879].According to the same source indirect revenues,including customs duties,were already pledged as guarantees of short term advances.Even these loans which were guaranteed by Ottoman bonds appeared to be sufficiently secured.For example,Baron Hirsch advanced £T 126.000 and received as security bonds of £3 million of nominal value.Even much smaller 'able I ;Statement of local loans,1878-1879. (in £T)

ıme of creditor	Interest rate	Amount of debt on 12/11/1878	Amount of debt on 12/3/1879
ınque Imperial	15	8,344,923	7,728,619.55
›ciete Generale	15	205,795.14	205,735.72
:edit Ottoman	24	392,228.85	392,236.67
ınque de Con/ple	15	93,129.88	92,657.22
›ciete Ottomane	20	26,020.59	45,000
;ib Effendi	15	185,887.74	170,728.47
Zarifi	11	1,705,551.47	1,720,437.75
.mow Bey	24	12,517.46	5,922.20
›mpte Hirsch	18	126,875.73	126,875.73
›rando Freres	15	56,780	56,780
:rnandes,Barker	10	-	1,660,000
ımara	15	39,788.62	69,238.62
:rgiez	24	51,146.84	23,899.50
ıltazi	11	443,666.90	377,128.41
›tal		11,627,532.22	12,675,259.84

›urce;FO 78/3067,Harrison to Salisbury,23 April 1879.

sums were granted sufficient guarantees.For example,the Societe Ottomane,for an advance of £T 15.000 was granted as security the revenues of the port of Zeilah in the Red Sea [Harrison to Salisbury,letter dated 29/4/1879,in FO78/3067].

Advances to the Ottoman state continued until November 1879 when a Convention was signed between local bankers and the government.However,it is difficult to estimate the exact value of the floating debt on that date.The Convention represented an attempt on the part of the Ottoman government to deal with its most pressing debts.According to the agreement a group of local bankers,including the Imperial bank,would lease some of the State's indirect revenues and keep part of the proceeds for themselves.The loans included in the Convention amounted to £T 8.725.000,a smaller sum if compared with the figures shown in Table I .This amount represented part of Zarifi's advances,amounting to £T 690.000,those of Fernandez and Barker amounted to £T 1.800.000 and those of the Imperial Bank,including the "quatre avances",amounted to £T 6.325.000 [see Appendix II,see also DU VELAY(1903)397-405].The Convention was also signed by other local bankers,including Theodore Mavrogordato,Goerge Coronio,Bernard Tubini,E Evgenidi,Leonodas Zarifi,P Stefanovich-Schilizzi and Z Stefanovich.This suggests that their advances were also included in the Convention presumably in the loans standing in the names of Fernandez and Barker,as well as those standing in the name of the Imperial Bank.

There is reason to believe that,given its financial predicament,the Ottoman state was not in a position to pay back almost £T 4 million in a period less than six months (compare to figures in Table I).It seems,therefore,that a good deal of local loans were not finally included in the Convention,although it is difficult to suggest why some creditors decided to opt out of the agreement.They may have thought that their advances were sufficiently guaranteed.There is,however,another factor which seems to be more important.The Convention of November 1879 saw a dramatic decrease in the rate of interest of the loans involved.It stipulated that from 13 January 1880 onwards,and until their their final reimbursement,these loans would bear an 8 per cent interest (compare to rates of interest in Table I).It is most likely,therefore,that most of the government's small creditors decided not to participate in the Convention preferring instead to enjoy higher rates of interest.

Nevertheless,after the Convention was signed,Greeks and other local bankers were reluctant to provide capital to the Ottoman government.It seems that they wished the government to liquidate its debt before they started lending money again.In fact,most of the bankers,including the group which signed the Convention,kept a low profile and appeared to be quite happy with that they thought they had secured.Yet,times were insecure and all the bankers concerned were well aware that the situation was to change soon.For one thing,the Convention did not satisfy the demands of the foreign bondholders.The pressure exerted by the latter on the Ottoman government was immense and eventually was to be fruitful (see Chapt X).

The Greek bankers'participation in the loans of that later period apart,there is another aspect of their activities which should be emphasised:their deep involvement in the financial policy of the Ottoman state.There is evidence to believe that the role of Greek bankers increased after the Ottoman suspension of debt service in 1876.They became more aware of the problematic state of Ottoman finances and were willing to interfere even suggesting radical measures.Presumably,Greek bankers were not the only capitalists directly involved in the conduct of Ottoman finances.The influence of the Imperial Bank was always more important than that of the Greeks.Yet,the latters'direct interference in Ottoman finances is more apparent during the later part of the period under discussion than it was before.This is highlighted by two developments:,the Greek bankers'involvement in the settlement of the Ottoman Public debt,which will be discussed later in detail,and their policy towards paper money circulation.

Although the Ottoman government managed to fund some of its activities by resorting to the local money market,there is evidence to support the view that the financial embarrassments of the Ottoman government could not be alleviated by these advances alone.Understandably,in a country whose revenues were,to say the least,insufficiently administered,and which had no access to the European money markets,a few million pounds were a drop in the ocean.

The issuing of paper money(kaime) was among the measures taken by the Ottoman government to stabilize its finances.The first issuing of Kaime took place in August 1876 and amounted to £T 2 million.It was followed by the issuing of £T 1 million in November of the same year [On the present condition of the Ottoman currency,in FO78/3067].Increasing financial exigencies,however,forced the government to proceed with the issuing of two more series of paper money:one in January 1877 equivalent to £T7 million and the second in August of the same year amounting to £T6 million.Therefore,in the autumn of 1877 the total paper money cicrulation was equal to £T13 million.The Ottoman government issued the paper money for two reasons:to repay part of the debt owed to local bankers and to pay salaries and arrears [AN F30/356,letter of 5/3/1877].The kaime was accepted as legal tender in dealings with the State,although its circulation was not extended to all provinces.The kaime did not bear interest and was initially priced at 130 piastres per Ottoman pound.This meant that the holder of kaime had to give 130 piastres in paper money in order to receive 100 piastres in gold.

In the event,the value of kaime declined sharply.In March 1877,the parity with the gold piastres was 170 to 100.In January 1879 the parity had reached 450-480 to 100 [AN F30/356,letters of 5/3/1877 and 24/1/1879].The depreciation of kaime caused severe problems in commercial affairs.According to a report of Dobognie,the French consul in Con/ple,the kaime circulation in this city had spread utter confusion,with merchants being forced to increase their prices constantly.As a consequence,the merchant houses of Pera decided to accept payments only in gold or silver [AN F30/356,letter of 24/1/1879].

Greek bankers accepted paper money not only because a part of kaime would go into their coffers,but also because they thought the kaime circulation,if manipulated in an efficient way,would relieve the Treasury of part of its expenses.In December 1877 a committee of local bankers was summoned by the government in order to provide a policy of avoiding further depreciation.The members of this committee were Leonidas Zarifi,George Zarifi's son and one of the eminent Greek bankers of the late 19th century;E Deveaux and Von Haas the representatives of the Ottoman bank;E Mercret,the director of the local branch of the Credit Lyonais;Z Stefanovic,a Greek banker [A&P(1878)LXXXII,21-27 (2)].The committee was led to the conclusion that the depreciation in the value of kaime was not due to the quantity of paper money in circulation.The total amount of kaime in circulation was small-and in comparison to other countries insignificant.According to the committee,the depreciation derived from public uncertainty about the intentions of the Ottoman government,namely whether the issue of paper money would continue or not and to what extent.In addition,the committee thought that kaime circulation was sapped by Turkey's vicious monetary system.The circulation of devalued coinage,both in silver and copper was damaging the value of paper money,especially in the provinces,because people preferred to use metallic currency rather than kaime.The bankers concluded that for these reasons the public distrusted and avoided paper money.

The committee provided a detailed scheme in connection with the withdrawal of paper currency.However it required the complete reform of the Ottoman monetary system.Although the bankers were aware of the evils of paper money they suggested that kaime circulation could,in the short and medium term,service the interests of the Ottoman state if its price was kept at a certain par.Moreover,paper money circulation should spread to all the provinces of the Empire and it should be accepted as legal tender for all purposes,taxation included.The report suggested that paper money circulation should be withdrawn,only at a very slow rate:£T 66.666 per month.At that rate the withdrawal of the paper money circulation would take twenty years.Moreover the committee suggested that a part of Public revenues should be assigned to the withdrawal of paper money.It was hoped that these measures would stabilize the price of kaime at a lower par,at the same time increasing the public's trust in paper money.Finally,the report suggested the complete withdrawal of all devalued currency,both in silver or copper.Silver currency in particular,should be demonetised and send to the foundry.Then the Ottoman government should buy gold which it would definitely need in the future.The committee,therefore,suggested the complete overthrow of the Ottoman monetary system,based till then on bimetallic circulation,and its substitution by a gold based monetary system.

Harrison himself was led to the same conclusion.In one of his letters to Salisbury he noted that "if means were taken to preserve the value of the kaime up to a certain average rate,and the withdrawal of very moderate amounts from time to time would suffice to do this,the caime would form a fairly satisfactory circulation medium and might be left to be dealt with hereafter in a gradual deliberate manner." [Harrison to Salisbury,letter of 25/12/1878 in FO78/3066].In the first place the Ottoman government did not accept these proposals.The withdrawal of paper money continued at a more swift rate than the one the committee had suggested.Nevertheless,in March 1880 the most important aspect of the commitee's proposals,namely the introduction of the gold based currency,was finally implemented.This measure was introduced in an arbitrary way.The government declared that all currencies not based on gold would be withdrawn at a rate equivalent to half their nominal value.Despite this,however,the gold standard became the new basis of the Ottoman monetary system [NEOLOGOS,10/3/1880,A&P(1880)LXXV,no 75,1883-1885].

It is true the bankers were more interested in stabilizing the Ottoman finances than anything else.Had Ottoman finances continued to be precarious,the guarantees given to local bankers would have been endangered.On such evidence,one may assume that the bankers were eager to reform Ottoman finances as the only way to safeguard their own money and assure the future of both Turkey and their own financial affairs.

Notes to chapter VII.

(1) See below, Chapter X ,304-305.

(2) The report of the Committee was endorsed by many local bankers and capitalists including G Coronio,B Tubini,J Chichmanoglou,A Tavoukdgi,A Foltz,A Barker,A Mavrokordato,and S Maksoud.

CHAPTER VIII: Three case studies. The Societe Generale de l'Empire Ottoman, The Banque de Con/ple and the Societe Ottomane des Changes et Valeurs: similarities and differences.

The major aspects of Greek banking in Con/ple have already been discussed.The year by year analysis of the operations of three banks closely connected with Greek capital will demonstrate these aspects in a more detailed manner.Unfortunately not all annual reports for this period are available,in particular,these of the Societe Generale for the financial years 1867-70.These gaps in material,however,do not prevent a more detailed presentation of banking activities because comparative data for these years exist in other annual reports or balance sheets.These three banking establishments were chosen for reason of both essence and convenience.The participation of Greek capital in these banks was decisive.In addition the managing boards of all three throughout the period under consideration consisted mainly of Greeks.Thus the operation of these three illustrates Greek banking activities.Moreover,these banks usually published their annual reports in local newspapers in Con/ple making at least some aspects of their activities available to the researcher.

The Societe Generale de l'Empire Ottoman.

The first years of the Societe Generale were crowned by a brilliant success.The bank was promptly involved in Ottoman finances,which became its major field of operation.The year it was established,the bank issued a loan of £2 million for the Ottoman Treasury guaranteed by the sheep tax [Report by BARRON(1866-67)444].This was a lottery loan bearing 8% interest and repayable in rapid instalments by 1869.The loan was finally bought by the Imperial bank which used the sheep tax to raise another loan.At the first meeting of the Societe Generale's bondholders the results looked quite remarkable.Zarifi reported in one of his letters to Renieri that, "Apart from the interest of 6% on each share,the managing board decided to distribute dividend of £2.The reserve fund is credited with £T 35.000 and another £T 5.000 is left at the disposal of the management for distribution next year [ETE,letter dated 18/5/1866].Although Zarifi is not referring to the total net profits it seems these were around £T230.000-250.000.more than one forth of the paid up capital?

The Societe Generale continued to realise profits for the rest of the period.The bank's participation in the syndicate of the Pinard loan secured large profits.Not surprisingly,the Societe Generale's profits were closely linked with the fate of Ottoman finances and by and large,its position reflected the situation of the local money market.The Societe Generale was heavily involved in Ottoman finances during the early and mid 1870's.According to the report presented to the annual meeting of bondholders for the financial year of 1871/72 the bank was deeply involved in transactions with the Ottoman government.Compared to the £T497.193 lent to the goverment during the financial year of 1870/71,the Societe Generale tripled its advances the following year to £T1.688.159 [NEOLOGOS,21/5/1872].During the period 1870-75 the bank advanced at least £T3.728.172 to the government [see Table I].Not surpisingly,the Societe Generale's propensity to lend followed the cycles of crisis and capital influx.The variations in the amounts of the short term advances to the government usualLy followed this pattern.For example,during the financial year 1873/74 the bank lent to the government only £T93.882 in short term advances,although the Societe Generale participated in the

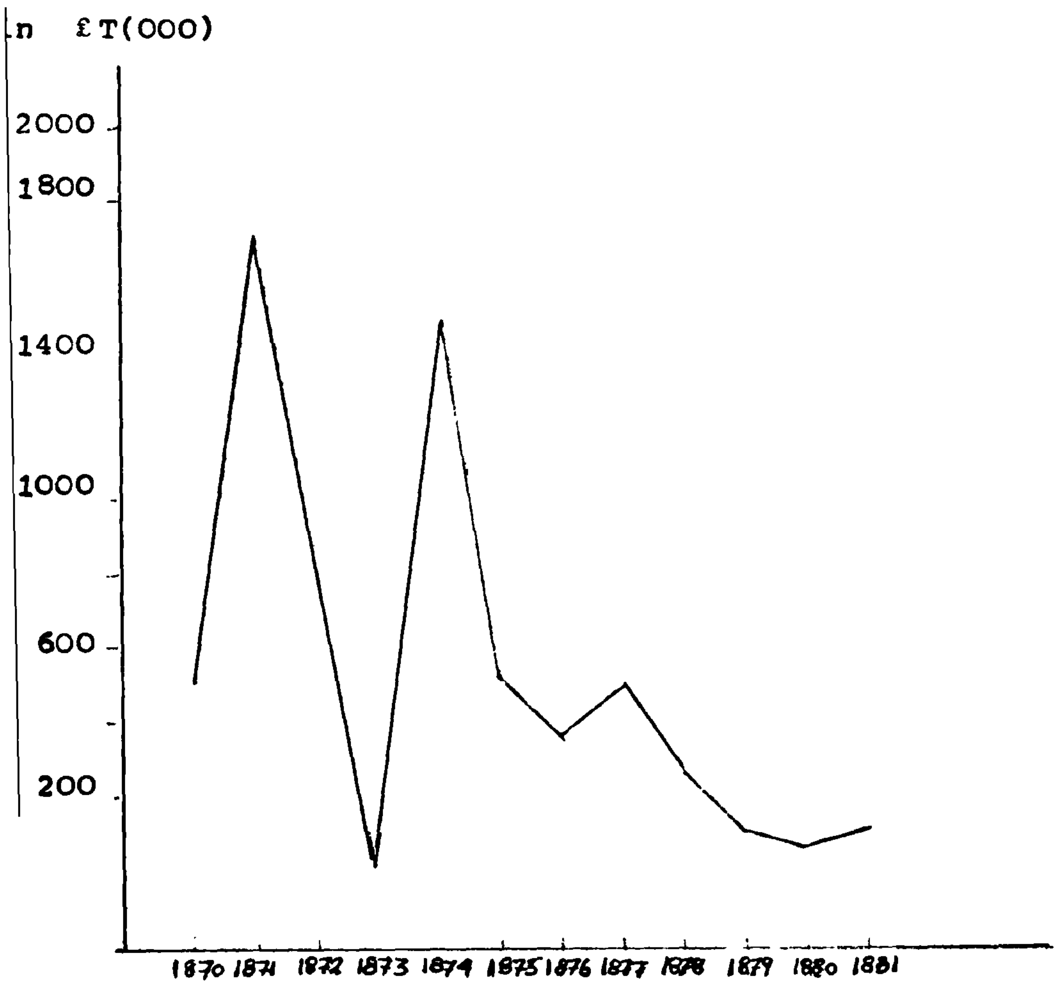


Table I: Societé Generale; short term advances to the Treasury, 1870-1881.

1873 Ottoman loan,buying bonds valued at £542.000 [NEOLOGOS,29/5/1874].One must point out however,that the bank lent not only from its own funds but also capital put at its disposal by individual capitalists.In addition participation in the 1873 loan plus the bank's short term advances to the Treasury amounted to £T690.082.

It appears,however,that new developments were under way.It is interesting to note that in 1873 the Societe Generale was involved in the Egyptian loan of 1873 as well as in those of the Spanish state in which it employed capital superior to the short term advances to the Ottoman Treasury.In particular,the bank engaged £T80.000 in the Egyptian loan and £T48.270 in the Spanish loans.The participation in the Spanish loans,if shortlived,was an attempt on the part of this bank to disengage itself,at least partly,from the traditional transactions with the Ottoman Treasury.This aspect is highlighted by the fact that the Societe Generale was willing to involve itself in sectors other than Ottoman finances as early as 1871.For this reason,the annual meeting of the bondholders in 1871/72 endorsed the board's policy of participating in the Societe des Tramways and in the Societe Austro-Turque.The meeting voted in favour of the amendment of the Bank's statute which was not clear enough on this point.As the board put it "We were wondering whether the bank should remain isolated and in constant conflict with these institutions,or whether the bank's interests would be better served if we extended our relations with at least some[of the newly founded institutions]...we considered that the second choice was the best." [NEOLOGOS,21/5/1872].

In connection with this policy it is interesting to present the position of the bank's portfolio.According to the same report,the bank held 500 shares of the Verissi&Cossoudi bank,1000 shares of the Banque des Courtages,444 shares of the Tramways,400 shares of the Austro-Ottoman Bank,350 shares of the Societe Commerciale,1800 shares of the Credit Generale of Greece,1 share of the Societe Ottomane,4500 debentures of the Rumelian railways and 62.190 bonds of the 1873 Ottoman loan.The value of all these bonds and shares amounted to £T 917.206.Therefore it becomes clear that during 1873 the bank made a moderate attempt to diversify its affairs.The influx of European capital between 1871 and early 1873 increased the board's aspirations.The operations in Egypt and Spain,as well as the large number and variety of bonds and shares kept by the bank underlines these aspirations.

This attempt is highlighted by the establishment of a branch in Alexandria in 1873,which in the first six months of its operations made a net profit of £T15.000.At a special meeting of the bank's bondholders held in March 1873,presided over by A Baltazzi,the board announced its new policy, "depuis nous avons reconnu qu'avec le grand developpement qu'ont pris l'industrie et le commerce sur les places d'Egypte et qu'avec les nombreuses rélations qui existent entre ces places et cette de Con/ple c'etait surtout a Alexandrie qu'il importait de nous établir d'abord;voila purquoi nous avons décidé d'y fonder une succursale qui entrera en exercise au 1ler Avril prochain.Mais...nous ne pouvions pas perdre de vue,que sur notre place elle même,les affaires prennent tous les jours une plus grande extension et que par consequent il eut été opportun de detourner une aussi forte somme des nos operations locales;de là naturellement nous vint l'idée d'un agrandissement de capital en rapport avec cette nouvelle situation." [LEVANT HERALD,3/3/1873].The meeting endorsed the board's policy.As a consequence the bank's nominal capital increased to £2.500.000 and in addition the Societe Generale founded its first branch in Alexandria.

However, events did not live up to the board's expectations. The financial problems of the Ottoman government forced the bank to give priority to business in Con/ple. After all, financial operations of this extent and diversity could only be safe and profitable if the bank's position in Con/ple was secure, and the board came to realise this early on. One may assume that the financial crisis of the mid 1870's totally ended the bank's propensity to involve itself heavily in sectors other than the Ottoman finances.

The effort to avert Ottoman insolvency led the bank to advance heavily to the government. According to the report for the financial year 1874/75 the bank's short term advances reached £T1.448.938 [NEOLOGOS,21/5/1875]. In the same year the portfolio of the bank consisted of shares and bonds valued at only £T366.964, most of them bonds of the 1873 Ottoman loan. According to the annual report for 1874/75 the board was faced with the abrupt and substantial decline in the price of shares and bonds [ibid]. Nevertheless, the board succeeded in disposing of the bulk of the values kept by the bank with the minimum of damage. However, the bank did not stop operating in Egypt. The decision to withdraw from other sectors did not concern Egypt and through its branch in Alexandria the bank continued to involve itself deeply in Egyptian finances. The reason for this lies in the fact that Egypt, was considered to be an integral part of the Ottoman Empire in the sense that both economic and political conditions were similar to those of Turkey. In addition the existence of an important Greek paroikia[colony] played a crucial role as the link between Egypt and Con/ple. For these reasons the

Societe Generale did not withdraw from banking operations in Egypt.

It appears,however,that the crisis had considerably affected the bank's board.Due to the prolongation of the financial crisis ,the board decided to cancel a decision taken in 1873 in connection with the extension of the bank's capital.Quite rightly,the board argued that,"the increase(of capital) was in inverse ratio to the affairs of the bank" [NEOLOGOS,21/5/1875].It is known that the establishment of the branch in Alexandria was followed by the issuing of 25.000 new shares which extended the bank's nominal capital to £2.500.000 represented by 125.000 instead of 100.000 shares.According to the board's viewpoint,the nominal value of each share should be equivalent to the share's real value.The board decided to retain the number of shares but to reduce the price of each share.The paid up capital for each share was £8 and the board decided to pay back £2 for each share and set the price at £6.Therefore the nominal value of each share was reduced from £20 to £6.In consequence,the real capital of the Societe Generale was reduced to £750.000.Undoubtedly,with this decision the board attempted to stabilize the share price as well as the position of the bank.However,this move did not avert the further depreciation in the price of the bank's shares.The average price of these shares a few months before the Ottoman insolvency varied between £3-4.

The position of the bank was considerably affected by the Ottoman insolvency.One of the board's first priorities during the financial year 1875/76 was to safeguard the capital it had already lent to the government.In addition the management of the Societe Generale was eager to supplement the bank's reserve fund which according to its statute should amount to £200.000.This was finally achieved in 1875 when the board carried a part of this year's profits to the reserve fund [NEOLOGOS,19/5/1876].Judging by the standards of other local banks this amount was extremely high and in fact represented 30% of the paid up capital.In the case of the Societe Generale however it proved essential because of the bank's involvement in Egyptian finances .Although the bank made no advances to the Egyptian Treasury during 1875 it held Egyptian stock valued at £T250.000.This amount represented two thirds of the values currently kept in the bank's portfolio [NEOLOGOS,19/5/1876].Yet this involvement proved fatal.The conversion of the Egyptian debt which took place in 1876 absorbed not only the bank's current profits but a part of its reserve fund as well: "En résumé les pertes considerables éprouvées par la dépréciation des titres Egyptien et des autres valeur...ont absorbe non seulement notre bénéfice brut du dernier exercise de £T 84.000...mais aussi en outre nous avons été obligés de porter au débit du Fond des réserves le déficit de £ T 169.515." [LEVANT HEARLD,25/5/1877].

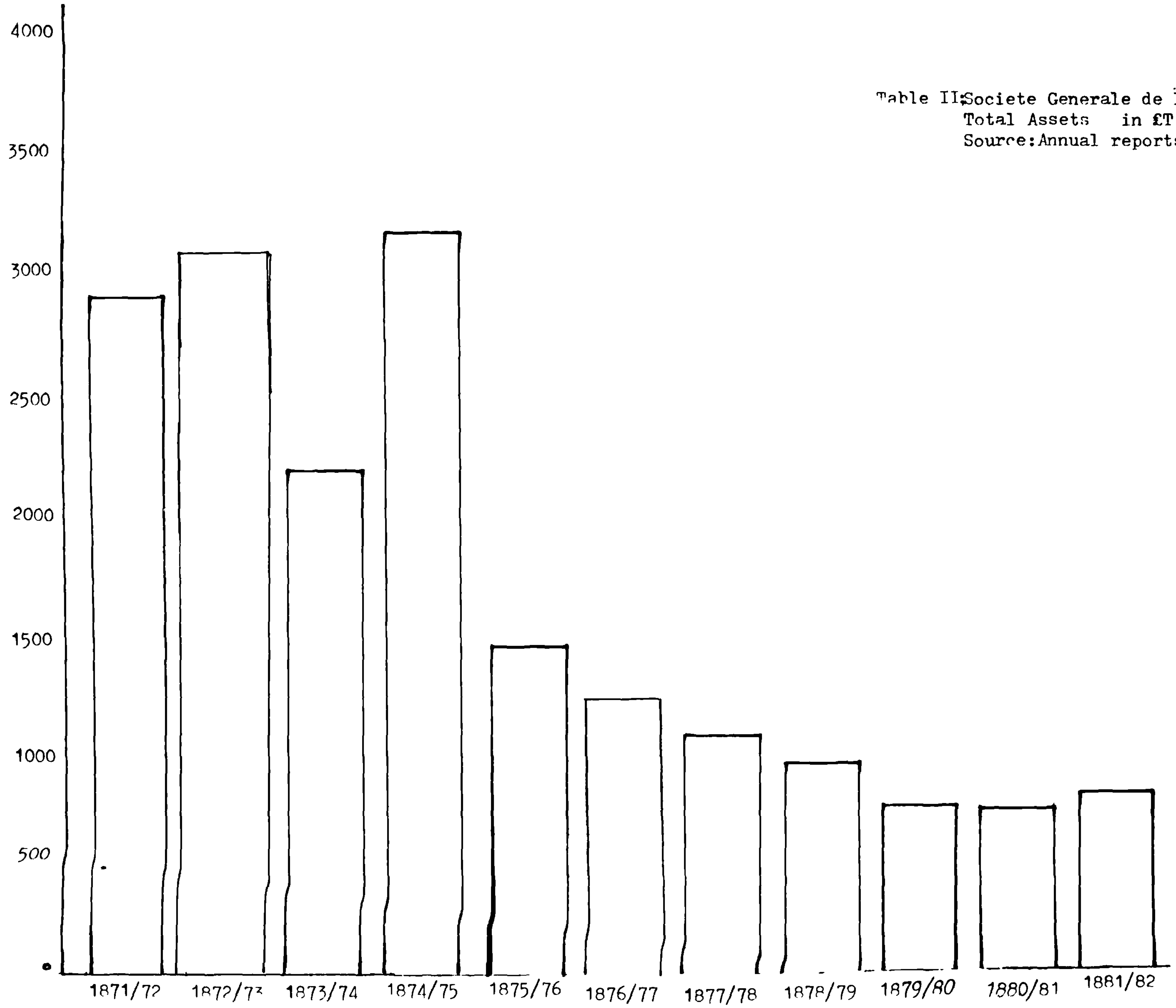
Conversely after the Ottoman suspension of payments,the bank's involvement in the Ottoman increased.Between 1876 and 1879 the bank advanced the Treasury at least £T2.116.000,an amount far in excess of its own capital.The war with Russia proved a heavy burden to the Ottoman Treasury.Cut off from European capital resources,the Ottoman government had to rely on the local money market.The Societe Generale participated in the major advances contracted by the Ottoman state to cope with that war.In 1877/78 the bank participated with £T56.658 to an advance of £820.000 for the purchase of ammunitions.In the same year the Societe Generale also participated in an advance of £T830.000 made by Zarifi with £T151.274.In addition,the bank lent the government directly

£T270.949 [IMEROLOGION TIS ANATOLIS(1878)279].In 1878 the Societe Generale's direct advances to the Treasury reached £T 297.227 and in 1879 they were £T151.376 [NEOLOGOS,28/5/1879,21/5/1880].According to the annual reports for these years,these advances were guaranteed by the sheep tax or by drafts drawn upon provincial Treasuries(havales).

The bank's participation in the financial convention of November 1879 does not seem to have been important.Out of the total debt of £T8.725.000 million the Ottoman government owed the Societe Generale £T398.000.However the bank continued financing the government:to the tune of £T 103.344 in 1880 and £T 136.733 the following year [NEOLOGOS,4/5/1881 and 26/5/1882].One may assume that the bank's main policy after 1876 was an attempt to safeguard the already advanced capital to the government.This attempt was accompanied by more short term advances.The bank wanted to receive sufficient guarantees not only for the new,but for the old,advances as well.In this way the government would have to agree to service the old advances as well.Yet,the amount of short term loans to the government became smaller each year.The Societe Generale gradually attempted to disengage itself from Ottoman finances applying the most conservative policy.The board was rather anxious about the bank's future,and by and large reluctant to make advances to the Treasury beyond a certain level.This restrained policy is illustrated by the decision further to reduce the bank's capital following the end of the war with Russia [see Table II].The board decided to liquidate 25.000 shares thus reducing the capital to £ 600.000.

The signing of the Muharem degree in November 1881 permitted the bank to invest in other sectors as well.For the first time since 1873,the bank became involved in the establishment of

Table II:Societe Generale de l'Empire Ottoman
Total Assets in £T.
Source:Annual reports of the Bank



companies and in investments abroad.During 1881/82 the Societe Generale participated in the establishment of the Compagnie des Eaux de Con/ple,in the establishment of the Bank of Epirus-Thessaly as well as in the Greek loan of 120 million fr [NEOLOGOS,26/5/1882].Although,according to the annual report for this year,these operations were undertaken "always without going away from the bank's system of prudence",it seems the final settlement of the Ottoman Public debt greatly relieved the management of the bank.

Throughout the period under discussion,commercial and other forms of credit remained insufficient.Although there are some exceptional years such as 1874/75,for example,when the entry "credit to individuals" reached £T378.923,it appears that the ordinary annual transactions of this kind varied between £T67.211 and £T30.913.It is not difficult to understand the reason why commercial credit was neglected.Before the Ottoman suspension of payments the bank was mainly preoccupied with Ottoman finances,while after 1875 it concentrated on recovering the money it had already lent the government and therefore it was forced to husband its capital resources.In the event however,commercial credit was neglected.In connection with this insufficiency of commercial credit,it is interesting to cite the viewpoint of an anonymous reporter of Neologos who pointed out that, "Zealous and keen fellow Greeks established many banks by spending millions of pounds but the government was the only one which availed itself of this capital resource.For this reason commerce received no assistance...The government should prohibit banks from lending their money to the Treasury...Yet,the most damaging aspect[to trade]is the non-existence of well organised banks.The establishment of such banks would save people from the claws of local usurers...What I mean is that the bankers of this city(Con/ple) should establish branches in the provinces which would be involved only in commerce..." [NEOLOGOS,16/10/1880].The article is rather overconfident in regard with the prospects of this project,yet it correctly emphasises the lack of commercial credit and its repercussion on local trade.

In spite of difficulties,however,the Societe Generale secured large profits except for the year 1876.Particularly during the early years the profits certainly exceeded the board's expectations.In 1871,the accumulated profits of the six previous financial years,matched the bank's real capital [NEOLOGOS,21/5/1872].Profits continued to be high during the early and mid 1870's.The financial crisis of the 1873-74 gave the bank some reasons to worry,yet the situation was kept under control.Profits were undoubtedly affected although the final results were not as disastrous as one might think.In addition,the Societe Generale did not suffer severe losses during the prolonged financial crisis of 1873-1875.In 1873 the bank made net profits of £T 76.267.According to the annual report for the year 1873/74 "everyone knows the reasons for the depression in our market.Unfortunately,due to these circumstances,we[the board] were unable to produce results similar to those of previous years...we can say however that these results are much better than one might think."[NEOLOGOS,29/3/1874].Profits,although much affected by the crisis continued to be high[See Table next page].Even after the Ottoman suspension of payments profits continued to be realised.Presumably they were much lower than those of earlier periods,but they remained sufficient to keep the bank going.It is interesting,however,to see how profits were developed in connection with the bank's real capital.

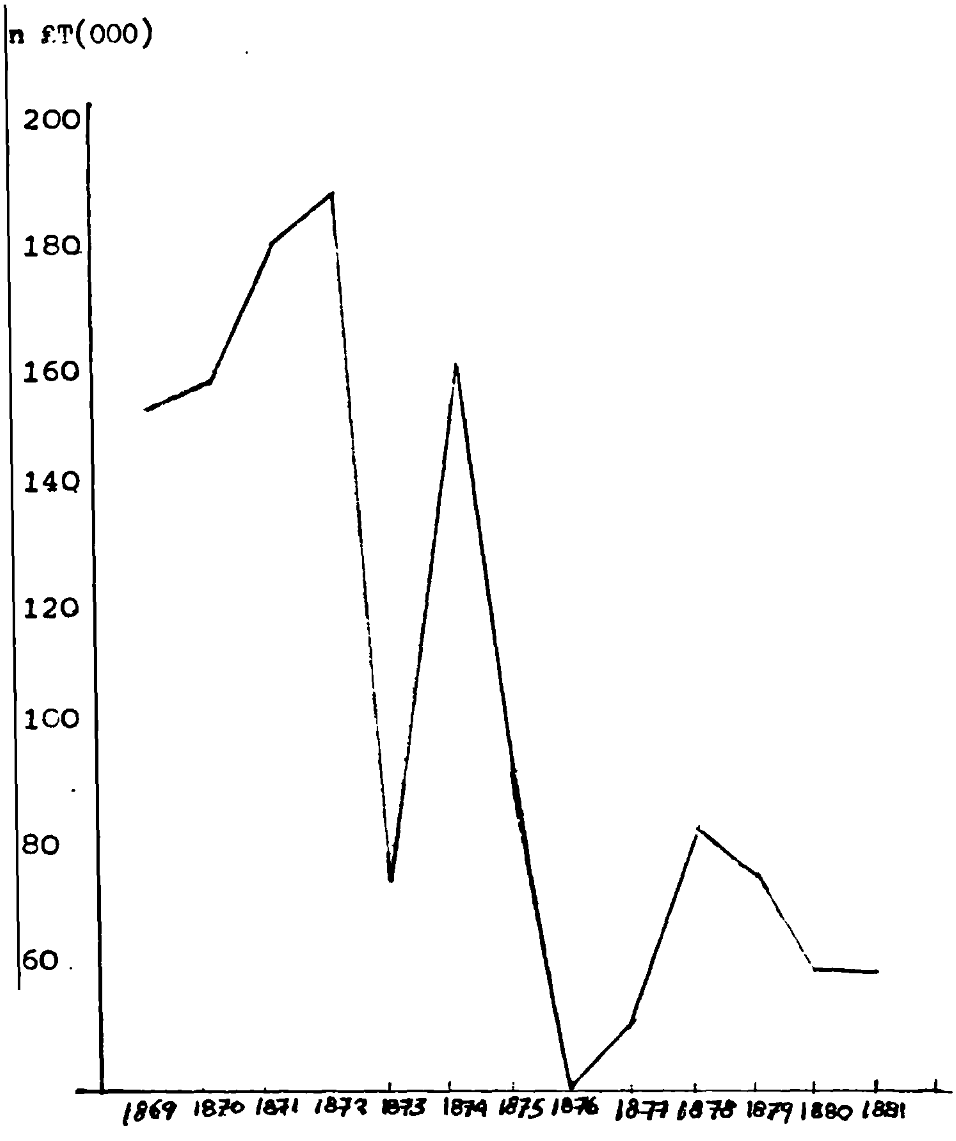


Table III: Societé Generale, net Profits.

Source: Annual reports of the Societé Generale.

Table IV:Proportion of profits to real capital

1869	18.5
1870	19.6
1871	22.7
1872	23.7
1873	7.6
1874	21.6
1875	12.6
1876	negative results
1877	7.3
1878	14,4
1879	13.1
1880	10.2
1881	10.1

Source:Annual reports of the Societe Generale.

In real terms profits continued to be adequate after 1876 although compared to those of the early and mid 1870' they were much reduced.This development is highlighted by the fact that the price of the bank's shares in 1879 was stabilized at between 4 and 5 pounds sterling.

Undoubtedly,high profits were the result of high interest rates which the bank enjoyed throughout the period under discussion.However,one must point out another aspect which after 1875 not only allowed the bank to make sufficient profits,but also to stabilize its position.This was the bank's conservative policies.Instead of taking any risk,the board preferred not tc exceed its real capital and therefore to limit its operations considerably.Surprisingly enough,this policy was,at least partly,followed even during the early and mid 1870's,when most of the banking institutions of Con/ple employed capital much superior to their capital resources.At the same time the bank kept sufficient reserve funds to enable it to cope with exigencies.In fact sufficient reserve funds explain why the bank was able to survive in 1876,when it suffered huge losses due to the conversion of the Egyptian Debt.In addition,substantial reserves helped the bank during the financial crisis of 1873-74.For example,when the Vienna crisis broke out the bank's reserve fund amounted to £T201.634.Throughout the period under discussion the proportion of reserve funds to the nominal capital of the bank remained around 10-11 per cent,although this proportion in relation to the real capital was much higher.Therefore,one may assume that the conservative policy of the board finally helped the bank to cope with the times.As a consequence,the bank succeeded in making profits,which according to the circumstances were either brilliant or moderate.

The Banque de Con/ple.

The Banque de Con/ple was established almost exclusively by Greek capital.The Greek element was predominant both in terms of capital and participation in the board of directors.Out of the nominal capital of £T1.100.000 the paid up capital was £T660.000 which at the time was a respectable amount.The bank's capital was divided into 100.000 shares,with the nominal value of each equal to £10.Following the end of the Franco-Prussian War and the influx of European capital to Con/ple,the prospects of the bank appeared to be good.The bank's participation in the syndicate providing the Ottoman loan of 1873 proved to be a major success:it was the bank's debut in large financial operations with the Treasury.Not surprisingly,in its first stages the Banque de Con/ple was associated mostly with transactions with the Ottoman Treasury.This was particularly the case during the period 1873-1878 when the bank engaged large amounts of money in such transactions either on its own account or along with other local capitalists.

During the financial crisis of 1873-75 the bank succeeded not only in surviving but also in making large profits.Transactions with the Ottoman government were heavy and it appears the bank was generally reluctant to disengage itself from the Treasury.In 1873/74 alone the bank engaged a total amount of £T1.801.203 in transactions with the Treasury.Judging from the bank's total assets in 1873/74 it appears that the capital it employed in that year reached a record level:£T3.848.339 [LEVANT HERALD,11/4/1874,see also Table VIII].Not surprisingly The bank showed large profits during the first years of its activities.During its first two years alone,net profits reached £T270.000,almost half the amount of the paid up capital.Moreover it appears that the bank was almost unaffected by the Vienna crisis and the financial crisis which followed the embarrassments of the Ottoman government in 1874-75.Commenting on the bank's annual report for 1873/74 the Levant Herald of Con/ple reported that "The document is in itself so clear and concise it needs no analysis.It is remarkable in so far only as it displays the foresight and judgment of the directors which has enabled them to work their way through a crisis-which was not only sudden in its first outbreak as it is protracted in its development-not only without loss but with an amount of profit such as even in favourable years would not have disappointed moderate expectations on the part of the shareholders.The secret of the success of the bank lies in the fact that its directors thoroughly understand their business" [LEVANT HERALD,11/4/1874].Additional evidence is found in an article in the Greek newspaper Mellon concerning the operations of the bank in 1873/74.In this case also,the reporter was surprised at the way the bank was able to avail itself of opportunities within the Con/ple money market which was supposed to be in crisis.[MELLON,,n.1050,1/4/1874].

In the year 1874,the bank found itself "au milieu d'un concours de circonstances financiers peu favorables;aujourd'hui[April 1875]nous sommes heureux de pouvoir vous signaler un amelioration notable dans la situation des affaires.L'annee 1874 s'est terminee beaucoup plus satisfaisant...." [Report of the managing board in the LEVANT HERALD,3/4/1875].The bank was not seriously affected by the depreciation of Ottoman bonds which occurred in 1874.According to the same report,during the six first months of 1874 the bank restrained itself from conducting transactions with the Treasury.Yet,when some signs of financial recovery appeared,the bank rushed to close the gap.Between June and December 1874 the bank advanced £T 1.500.000 directly to the Treasury and in addition,along with the Imperial bank it was involved in an advance to the government in which it participated to the extent of £1.300.000.What is more important in connection with the bank's affairs during 1874,was the development of its relations with the Imperial Bank.In this year the bank signed a contract with the Imperial Bank.The arrangement was that the Banque de Con/ple would participate to a large extent in any operation of the Imperial bank conducted with the Treasury.In addition,the contract assured the bank"des avantages equivalents a ceux que nous procureaint des affaires traitées directement par nous".[LEVANT HERALD,ibid].This was a good move on the part of the bank of Con/ple since it attempted to align itself with the Imperial bank whose position had been considerably strengthened by the decree of February 1875 [see below,31-32].However,this attempt was received with scepticism.According to the Levant Herald"The Bank of Con/ple gives undue importance to its contract with the Ottoman bank.It would no doubt be advantageous to the bank..[yet]..at the same time the bank sinks its individuality by insisting on the advantages it hopes to secure under the protection of the national establishment." [LEVANT HERALD,5/4/1875].Yet,it is difficult to speculate whether this contract would secure the bank large profits because the precarious position of Ottoman finances rendered any large scale operation with the Ottoman state problematic.

The suspension of Ottoman payments considerably affected the bank's policy.It was forced to follow the policy of the other banking institutions of Con/ple,namely to safeguard the capital it had already lent to the government.Then the bank attempted to disengage itself from Ottoman finances and to employ its capital in other sectors,outside or inside the Ottoman Empire.

In 1875 the bank took part in the various advances to the Ottoman Treasury to the extent of £T2.022.969.However it succeeded in recovering most of this capital within the same year.In December 1875 the Ottoman government owed the bank £T 653.765.The net profits for this year amounted to £T217.000 but in view of the critical situation of Ottoman finances,it was decided to carry £T85.000 over to a new special fund which thought to provide an additional security for the bank [LEVANT HERALD,28/4/1876].In addition,the board came to the conclusion that a change of policy was absolutely necessary.The board made its attitude clear in the annual report for the year 1875/76 "Pour cela il serait fort possible qu'en présence de la position actuelle de notre place...un changement radical dans la marche et la nature des nos affairs devint un jour nécéssaire.Dans ce cas,il nous faudrait aggrandir le cercle de nos opérations et aussi transporter sur d'autres terrains qui nous sont restes fermes jusque à présent on sur lequels nous n'avons fait que un court apparition." [LEVANT HERALD,28/4/1876].This declaration was accompanied by a proposal that the board should be able to liquidate the bank or to merge with another establishment if circumstances were favourable.In the event the proposal was adopted by the meeting [LEVANT HERALD,ibid].However,it took a few more years to implement this new policy.In the meantime the bank continued to make advances to the Ottoman government.

1876 was a bad year for the bank.Despite the fact that it showed net profits amounting to £T44.000,a meagre sum if compared to those of previous years,it also suffered heavy losses.However these losses did not derive from Ottoman finances but from the conversion of the Egyptian debt which took place in the same year.The depreciation of Egyptian stock held by the bank caused it a loss of £T 100.000 [LEVANT HERALD,28/4/1877].Yet the bank was in a position to recoup these losses with the profits deriving from transactions with the Ottoman Treasury.In 1876 the bank advanced £T 1.100.000 to the Treasury and succeeded in recovering a large part.It should be pointed out,however,that the profits realised in 1876 were the lowest ever.In addition one might say that such low profits strenghtened the board's determination to turn to business in Europe and Greece.

The outbreak of war with Russia put the board in a difficult position.Withdrawing its assistance to the government at this critical moment would have meant weakening of the bank's position vis-a-vis the Ottoman State.That would have probably led to the bank's exclusion from any future settlement of the Ottoman floating debt in which it had a respectable share.In addition Greek bankers considered that if Turkey was defeated,Russian claims would be a serious threat to their interests [see below,Chap,X,279-281].Therefore Greek and other local bankers were willing to advance to the government no matter what.Not surprisingly the Bank de Con/ple participated in the major loans to the Ottoman government during the Russian-Turkish war.According to the annual report for the financial year 1878/79 the bank was involved in the Defence loan which was placed in Con/ple by the Imperial bank and the House of Zarifi.It also participated in the loan of Zarifi conducted in 1878 as well as in an advance of £820.000 used for the purchase of ammunitions.The bank's share in these advances amounted to £T 701.113 [IMEROLOGION TIS ANATOLIS(1878)285].Following the end of the war however,the bank attempted to disengage its capital from Ottoman finances.Presumably the bank's board considered other sectors more profitable than the Ottoman finances,as will be shown with very good reason.The attempt to disengage from transactions with the Ottoman state is clearly shown in the following table.

TABLE V:Short term advances to the Ottoman Treasury,1876-1881.

1876	£T 1.100.000
1877	701.113
1878	420.526
1879	114.083
1880	40.051
1881	175.114

Source:Annual reports of the Banque de Con/ple.

Not surprisingly,the board of the bank was greatly relieved when the Convention of November 1879 was signed.In a detailed description of the convention,the board announced that "In spite of all difficulties the establishment of the service of the six revenues is well under way,and the collection of revenues goes on with satisfactory results.The collection has not yet reached the desirable level,but there is hope that the assistance of the Ottoman government[with the monetary reform]...revenues will increase and both the interests of the country and its creditors will be served in the best possible way." [NEOLOGOS,24/4/1880].Indeed the service of the six revenues was so successful that in the following year the board was in a position to rejoice."Thanks to the good will of the Imperial government as well that of the staff and directors of the service of the six revenues,the progress achieved lived up to our highest expectations." [NEOLOGOS,27/4/1881].It is not difficult to understand the reasons for the board's satisfaction.Due to the successful conduct of the service of six revenues,the amount owed to the bank by the Ottoman government decreased spectacularly:the bank received £T64.007 from the service of the six revenues in 1880 and £T61.416 in 1881.As a result the Ottoman government's debt to the bank fell from T312.089 in 1879 to £T186.666 in 1881 [NEOLOGOS,24/4/1880,27/4/1881].In addition,the bank also benefitted from the Muharem decree,the convention which brought to terms the Ottoman government with its foreign creditors.For the unredeemed part of its advances the bank was granted privileged bonds whose service had precedence over the payment of all other bonds.The board of the bank continued to emphasise the possitive aspects of this development and,understandably,it associated the decree with the economic development of Turkey [RAPPORT DU CONSEIL D'ADMINISTRATION DE LA BANQUE DE CON/PLE:1882].

Yet,the basic aspect of the bank's activities during the last part of the period under discussion,was its involvement in investments abroad.In contrast with the policy of the Societe Generale,the Banque de Con/ple did not hesitate to extend its operations in Paris,London,Greece,and Romania.In 1873 the bank established a branch in London and another in Paris the following year.Yet,the bank extended its activities in these cities only during the late 1870's.In 1880 the London branch realised net profits of £T18.700 while in the same year the Paris branch succeeded in making a profit of 500.000fr(=£T 21.739).The importance of the two branches for the bank is indicated by the fact that their management was entrusted to two members of its board.One of the bank's founders,Zorzi Coronio became the director of the Paris branch while Syngros's representative in England J Ionides undertook the management of the London branch.In 1881,a third branch was established in Athens the management of which was entrusted to Syngros and Scouloudi.

In connection with this new policy the Banque de Con/ple was involved between 1879 and 1881 in various affairs abroad.In 1879 the bank joined with the Banque Franco-Egyptiane in issuing Greek Treasury bonds amounting to 60 million fr.It also participated to advances in the Romanian state [NEOLOGOS,27/4/1881].In 1881/82 the bank took active part in the establishment of the Bank of Epirus-Thessaly,one of Syngros's banks in Greece,as well as in the issuing of the Greek loan of 120 million fr.In addition,through its branch in Paris the bank participated in the Banque de Mexique,the Credit foncier de l'Angletere,the Banque Generale de Rome and the Societe des terrains du littoral de la Mediterranee.All together the Banque de Con/ple invested 764.200 fr.in these institutions [RAPPORT DU CONSEIL DE L'ADMINISTRATION:1882].Of all these operations,however,the most important was the bank's involvement in the Greek loan of 120 million fr [ibid].This loan was issued by the Banque de Con/ple,the Comptoir d'Escompte and the house of Hambro & Co of London.The loan bore 5% interest and was divided in 240.000 bonds [ECONOMEKE EPITHEORISES,1882,vol 9,246,KATASTATIKON ETHNIKES TRAPEZES(1882)114,ANDREADES(1925)88].According to the annual report for 1881/82 the board justified participating in the Greek loan in the following way: "L'affaire se recommandait surtout a nos yeux par un ensemble de disposition dont les prescription rigoureuses donnaient aux preteurs en dehors d'avantages multiples,les garanties le plus solides et les plus complètes.Dans ses conditions la Banque n'a pas craint d'y prendre un interet considerable." [RAPPORT DU CONSEIL:1882].The guarantees given to the syndicate which issued the loan were indeed very satisfactory.For the service of this loan alone the Greek government pledged the tobacco tax,the annual revenues of national lands and the customs revenues of Athens,Pireus,Patras and Zante.[ECONOMIKI EPITHEORESIS:op.cit,247].

The Bank's emphasis on operations abroad becomes clearer if one examines the composition of its portofolio during this period.In 1879 it had bonds and shares amounting to £ 569.596.But most of these were bonds of the Defence loan.In 1880 the bank held many bonds of the Defence loan but also bonds of the Greek loan of 60 million fr,Egyptian Treasury bonds as well as bonds of the Egyptian loan of 105 million fr.According to the annual report for the year 1879/80 the bank decided to restrict the sale of bonds because there were no worthwhile investment opportunities in Turkey [NEOLOGOS,24/4/1880].The bank did not proceed with sales of bonds hoping to do so when the prices increased.The following year however,the composition of the bank's portfolio changed entirely.In 1881/82 the bank held bonds and shares worth £T181.884.Now the bulk of them consisted of bonds of the Chemin Galicien,of the Banque Maritime,of the Cie Franchaise de navigation,of the Banque Generale d'Egypte etc [RAPPORT DU CONSEIL D'ADMINISTRATION:1882].It seems that the bank had sold almost all Ottoman values at its disposal in order to fund its operations abroad.Besides that was the reason why the bank held important amounts of such values.Ottoman bonds of the Defence loan were considered to be a good asset and could be kept as a safety capital but as soon the bank found more profitable opportunities it did not hesitate to dispose of them quickly.

This is not to say that investments within Turkey were totally neglected.The bank also participated in the establishment of the Compagnie des Eaux de Con/ple as well as in the advances to the Societe des Tramways.Yet,at that time investments in Turkey had become of secondary importance and,in the event,the bank's board opted for operations abroad.

However,since its establishment the bank had succeeded in making large profits [See Table next page].Particularly after 1875,it realised profits far superior to those of the Societe Generale.In this context it is worth presenting the profits enjoyed by shareholders between 1873 and 1881.

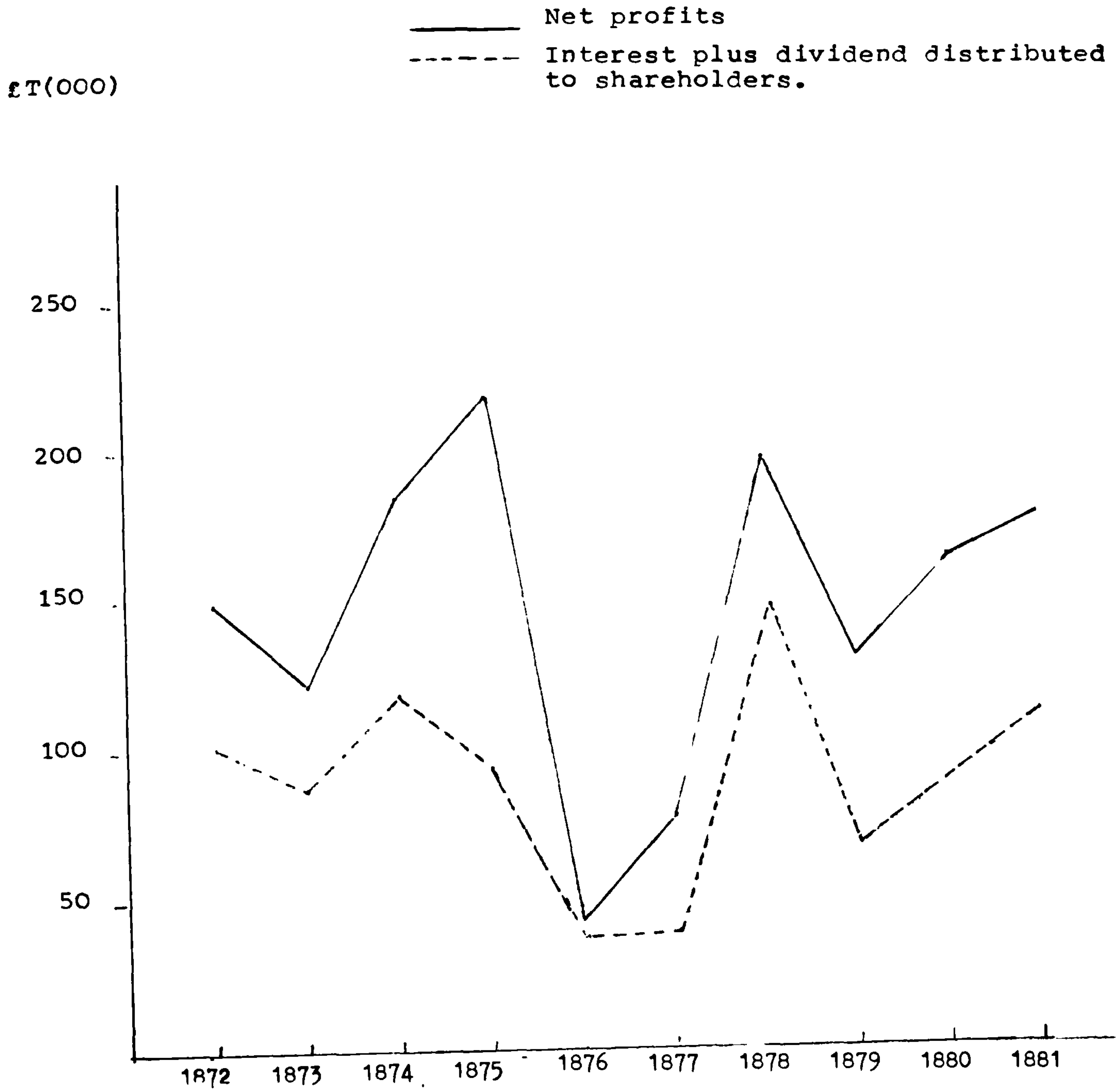
TABLE VI:Proportion of annual capital yield in % of the paid up capital(including interest).

1873	24.3
1874	13.3
1875	18.0
1876	6.0
1877	6.0
1878	16.2
1879	10.1
1880	13.5
1881	16.6

Source:Annual reports of the Banque de Con/ple.

Undoubtedly,the bank's profits,particularly in the later period,were partly associated with the policy of investing outside the Ottoman empire.It was the activities of the branches in Paris and London-and later of Athens-along with the involvement of the bank in numerous operations abroad,which made these large profits possible.The gradual disengagement of the bank from the Ottoman finances however,was not followed by a corresponding decrease in the bank's real capital as happened in the case of the Societe Generale.The bank retained its real capital and availed itself of investment opportunities abroad which were finally translated into

Table VII: Banque de Con/ple, movement of net profits and distributed divideyts



Source: Annual reports of the Banque de Con/ple.

large profits.One may ask whether this policy was a risky one and whether if something went wrong the bank's position would be jeopardised.In fact,this was a risky policy but the bank was always in a position to cope with exigencies.It had two reserve funds:the regular reserve fund and the provisional reserve fund(fonds de prevision).The first reserve fund was allocated the 5% of net annual profits.The second fund was also financed from net profits but not at a fixed percentage.As already explained,the provisional fund was created in 1876 due to the precarious position of the Ottoman finances.The board decided whether to distribute dividend or not according to the circumstances.If it was decided that dividends should be distributed,the board used the capital accumulated in the provisional fund.Conversely,net current profits were carried over to the provisional fund to assure future dividends or,if the prospects appeared gloomy,to be used to stabilize the bank's position.A similar technique was used by the Societe Generale but the latter husbanded its resources far more than the Banque de Con/ple.In this way the Bank of Con/ple was in a position both to secure large dividends for the bondholders and to keep sufficient amounts of capital as a reserve fund.

One other aspect which should be emphasised is the total assets used by the bank during this latter period .It appears that the bank used far less capital after 1875 than before.In view of the precarious position of Ottoman finances,this was only to be expected.Yet the Bank de Con/ple retained a substantial amount of capital far superior to the Societe Generale [see table VIII].This happened because of the bank's new policy,namely to invest large amounts of money abroad instead of restricting itself to the Ottoman Empire.It must be pointed out,however,that the bank was joined by other capitalists who entrusted their capital to the bank.The bank used to concede a part of the advances it conducted with the government to other capitalists.In practice this policy had been continuously followed since the bank's establishment.Some times the proportion of the participants'capital to total investments was far larger than that of the bank itself.In 1873 for example,this capital amounted to £T 1.461.183 out of a grand total of £T 1.801.761.With this policy the bank was in a position to employ large amounts of capital without at the same time exceeding its capital resources.Of course the bank received commission.This,according the circumstances could be substantial.

One may assume therefore that the bank did quite well.It secured large profits,it expanded its activities abroad,and it retained its real capital.In addition it was always in a position to cope with emergencies despite the fact its reserve funds were relatively small,and certainly much smaller than those of the Societe Generale.Not surprisingly,in 1881 the Banque de Con/ple had become the leader among the commercial banks of Con/ple,a fact shown both by its total assets and by its profits.

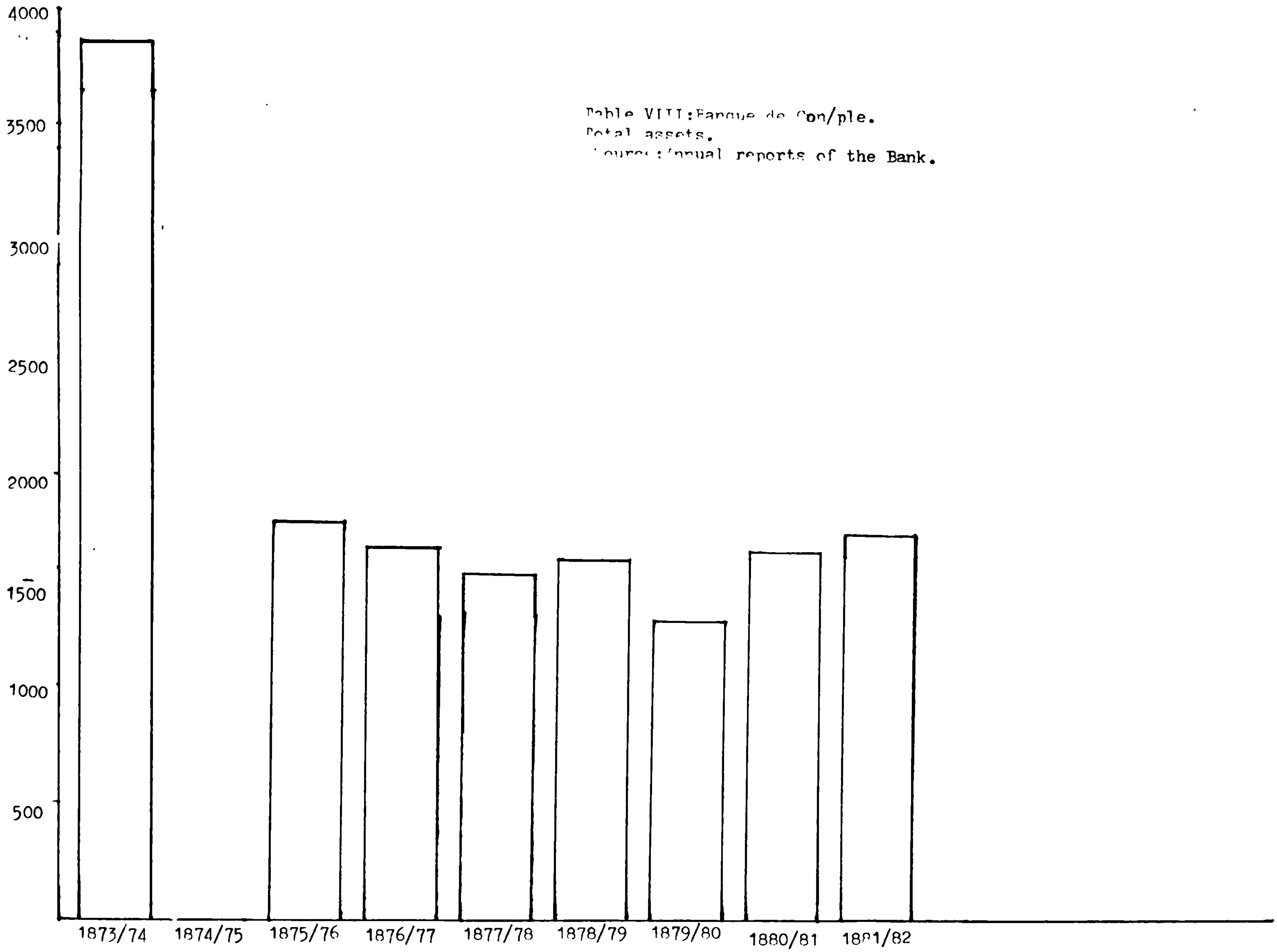


Table VIII:Banque de Con/ple.
Total assets.
Source:Annual reports of the Bank.

The Societe Ottomane des Changes et Valeurs.

This bank was established in 1872 by two Greek bankers,E Eugenidi and P Clado together with an English capitalist,M Barker.In comparison to the other two banks the Societe Ottomane was smaller.Its nominal capital amounted to £T 660.000 while the paid up capital was only £T 330.000.Considering the scope of commercial banking in Con/ple the founders of the Societe Ottomane concentrated their efforts on commercial banking.In fact,the initial purpose of the Societe Ottomane was to specialise in commercial banking.In the event,however,it became involved in Ottoman finances to the same extent that the others did,and sometimes this involvement was extended far beyond its means.Nevertheless brokerage,commissions and other commercial transactions continued to hold a large part of the bank's turnover and in fact the bank succeeded in making sufficient profits out of it.

The first annual report of the Societe Ottomane was presented in April 1874.Not surprisingly the report referred to the financial crisis of this year and its repercussions on the money market of Con/ple: "Due to the abundance of capital and the low interest rates in Europe the first part of 1873 was characterised by a financial fever.Unfortunately,although the condition of our market seemed to be sound and the share prices of all local establishments were at their highest level ever,the outbreak of the Vienna crisis spread fear....Our market felt the repercussions heavily...and the distrust on all shares resulted in a depreciation beyond anything anticipated." [NEOLOGOS,27/4/1874].It appears,however,that the bank was not affected by the Vienna crisis.In 1873-74 brokerage and commission transactions left a net profit of £T 34.671.In addition,during the same period the bank was heavily involved in transactions with the government.It advanced directly to the Ottoman government £T 1.275.296.In addition the bank participated in the Ottoman loan of 1873 to the extent of £200.000.Yet,a large part of this capital did not belong to the Societe Ottomane.As should be expected,the bank ceded part of its advances to the Treasury to other capitalists.In 1873/74,for example,the participants' capital represented £T 623.000.

The involvement of the bank in the Ottoman finances continued during the following years.In 1874/75 the bank advanced £T2.536.431 to the government.This time the bank engaged £T 997.088 of its own capital and ceded the remainder to its customers.This year, "thanks to the Imperial bank" the Societe Ottomane participated in the Ottoman loan of 1874 which left it with a net profit of £T 24.736.The management of the bank continued to pay attention to brokerage business.In 1874/75"notwithstanding that the business done in exchanges in our market is relatively small....we are nevertheless happy to inform you[the shareholders] that net profits on brokerage were £T 23.023." [LEVANT HERALD,5/4/1875].

However,the bank's deep involvement in the Ottoman finances was to prove fatal.It suffered heavy losses when the government suspended the service of the Public Debt in 1875.The Societe Ottomane had participated in the sale of unsold bonds from the 1873 Ottoman loan.The syndicate,headed by the Imperial Bank undertook to buy these bonds and place them on the local market.The suspension of payments however led to a general depreciation of Ottoman bonds.The syndicate had placed only half of these bonds and suffered huge losses:instead of the anticipated premium,a large discount was the result.The Societe Ottomane which had participated in the transaction to the extent of 11.850 bonds,out of a total of 652.780,suffered losses amounting to £T 12.460. [LEVANT HERALD,4/4/1876].One must point out,however,that when the Ottoman suspension of payments was declared,the management of the bank was generally reluctant to advance to the government.The board made this clear in the annual meeting for the financial year 1875-76, "Our advances to the government up to 31 December[1875] was £T 554.022:that they reached this figure was owing to circumstances beyond our control.The Syndicate of 1873...had entered into an engagement with the Government to pay all advances guaranteed on the 1873 bonds...in case the participants in those advances should decide to claim payment.Such being the case we were justified in continuing on the repayment of our advances of 13th October last,seeing that we had but to declare ourselves unwilling to renew in order to compel the Syndicate to re-imburse us.Towards the end of September last,the various financial houses were asked by the government to lend it the aid in obtaining the funds necessary for the payment of the October coupon...we consented to participate in this advance...but we were deceived in our expectation the Syndicate declaring that the decree of October the 6th annulled its engagement towards the government and liberated it from repaying the advances...The consequence of this was that our "advance account"was,contrarily to our provisions,considerably increased." [LEVANT HERALD,4/4/1876].

One may reasonably assume that the management of the Societe Ottomane was dismayed when the service of the Ottoman debt was suspended.The bank had extended itself far beyond its means.In comparison to the other two banks the involvement of the Societe

Ottoman was much heavier.According to a contemporary source,since 1874 this bank had lent to the government £ T1.395.000 of its own capital [LEVANT HERALD,4/5/1876].Obviously the reporter of the Levant Herald was referring to the actual amount which appeared on the balance sheets of this period.In reality the bank had advanced much more substantial capital:during the same period it had employed £ T 1.155.068,of its own capital not including that of its customers.Part of this capital was repaid,but the remainder was still disproportionate to the bank's small capital resources.Summarising its report with regard to the Societe Ottomane the Levant Herald points out that, "The company shows good profit,good general management careful and economic working .But the lock up in advances to the Treasury is so disproportionate to the means of the company that the shares have dropped to £1.8(5 paid)and the direction feels called upon to postpone for a time the distribution of dividends." [LEVANT HERALD,ibid].

In spite of the bank's reluctance to reinvolve itself heavily in the financing of the Ottoman government the general situation was such that it had no other option.The Societe Ottomane,like all other local establishments,was dependent on the economic revival of the Ottoman State,just as the Ottoman government was dependent on these establishments for its current needs.This interdependence led all local banks to advance to the government and made them practically its only financial resort.The danger that a Russian victory would represent to the bankers'interests has already pointed out.The Societe Ottomane was not an exception to the rule.For these reasons the bank continued to assist the government hoping for a future settlement which would allowed it to recover its early advances.In the mean time the bank secured sufficient guarantees for its new advances;almost all its advances to the govenment contracted between 1876 and 1879 were guaranteed by the sheep tax,customs revenues or the indirect taxes of Turkey.In the board's own words, "Nous éspérons que le gouvernement Impérial prendra en sérieuse considération la nécessité imperieuse de sauvegarder les intêrets des établissements financiers de Galata,qui seuls lui ont prêté un concours devoue dans les circonstances difficultés qui il traversait,et dont la prospérité est en étroit corrélation avec celle du pays." [LEVANT HERALD,30/4/1877].

During the financial year of 1876/77 the bank advanced £T 513.785 to the government.One year later the Societe Ottomane,directly or indirectly,lent to the Ottoman Treasury another £T658.975 [IMEROLOGION TIS ANATOLIS(1878)287].During the next two years the bank advanced similar amounts of capital to the Treasury:£T 506.384 in 1878 and £T 272.570 in 1879 [NEOLOGOS,29/4/1879,21/4/1880].Despite these advances,however,the bank was eager to restrict its connections with the Ottoman Treasury as much as possible.So in 1878 the bank disposed of all its Ottoman stock fearing a further depreciation in their prices [NEOLOGOS,29/4/1879].During the following years there is no indication that the bank was involved in transactions with Ottoman bonds and it appears that the management of the bank was extremely unwilling to accept such bonds as a guarantee.Instead the bank was always asking for direct or indirect revenues to be placed as security.

Understandably,the bank participated in the convention of November 1879.When this convention was finally signed the Ottoman government owed the bank £ T 705.118 .Nevertheless,the bank abstained from any advance during the years 1880 and 1881 restricting itself to the collection of the amounts already owed to it by the government.Indeed the bank recovered a large part of its money back during these two years and in 1881 the government's debt to the bank had been reduced to £T 173.779.When the Muharem decree was signed in December 1881 the bank was granted privileged bonds for the same amount [NEOLOGOS,10/4/1882].

During the 1870's,however,the Societe Ottomane did not involve itself in investments outside the Ottoman empire,not even in Egypt where financial conditions were similar to those of Turkey and,as has been already pointed out,other banks were heavily involved.In addition,the bank did not take part in investments in the Greek kingdom which at that time was becoming an important field of banking investment.Consequently,unlike the Societe Generale and the Banque de Con/ple,the Societe Ottomane suffered no losses from the conversion of the Egyptian debt.Instead its embarrassment derived directly from its transactions with the Ottoman Treasury.The Societe Ottomane's early policy for participating in the Ottoman finances far beyond its capital resources proved disastrous.Undoubtedly,the reason for this involvement lies on the high interest rates which the bank enjoyed.For example in 1873/74 the bank enjoyed rates varying between 10 and 13 %.

One should point out however that the management continued to devote attention to commercial banking.Between 1873 and 1876 the bank's profits from brokerage and exchanges amounted to £T 95.000 [LEVANT HERALD,4/5/1876].In 1877/78 the bank made a net profit of £T 43.804 out of brokerage and exchange transactions.However,it is essential to emphasise that,particularly after the disastrous year of 1876,the bank's net profits heavily relied upon brokerage and other commercial transactions.In this way,the commercial recession of the late 1870's and early 1880's affected the profits of the Societe Generale to a much greater extent than those of the other two banks whose involvement in commercial transactions was limited,to say the least.According to the annual report for the financial year of 1878/79, "the decrease of brokerage profits derives from the bad condition of all commercial and economic transactions throughout the last year." [NEOLOGOS,29/4/1879].A similar situation was presented in the following years.In 1880/81 the bank not only made no profits from brokerage and exchanges,but it suffered slight losses of £T 1.170.

Despite all this,however,the bank showed substantial profits throughout the 1870's.Certainly,the total amount of profits realised by the Societe Ottomane was smaller than that of the two other banks [See Table next page].Yet if these profits are compared to the bank's paid up capital,they seem extraordinarily high.This is clearly shown by the following table comparing the net profits to the bank's real capital.

TABLE IX:Proportion(%) of net profits to the paid up capital.

1873/74	25.6
1874/75	36.0
1875/76	19.4
1876/77	8.9
1877/78	14.9
1878/79	13.9
1879/80	11.4
1880/81	9.0
1881/82	7.7

Source:Annual reports of the Societe Ottomane.

It appears,therefore,that apart from the years of 1876/77 and

Table X: Societé Ottomane; movement of net profits.

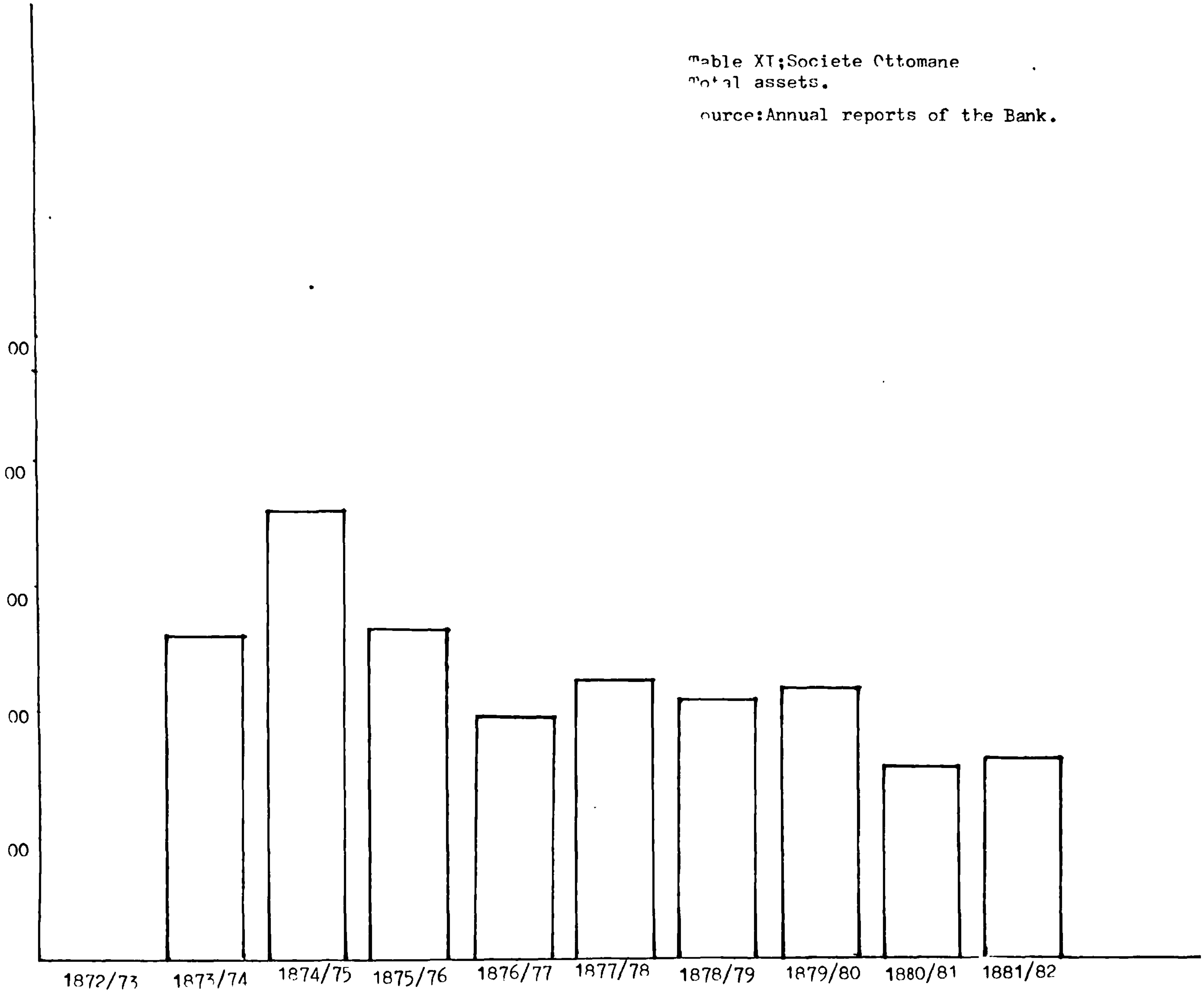
Source:Annual reports of the Societé Ottomane.

the early 1880's,the bank's net profits were proportionaly as high as those of the other two banks which in the final analysis used far superior capital.From its establishment in 1872,the bank provided the shareholders with a dividend of 145% on their paid-up capital which should certainly be considered a good result.Moreover,despite the difficulties the bank faced it retained its capital and made no attempt to reduce it as was the case of the Societe Generale.Nevertheless,after 1876 the bank's directors were forced to reduce its turnover [See Table XI].After the suspension of the service of the Turkish Debt however,this was the common denominator of banking activities in Con/ple.Even the turnover of the Bank of Con/ple which had become the leading Con/politan bank,was much lower if compared to the turnover of the early and mid-1870's.The policy of the bank after 1876 was similar to that of the Societe Generale and it appears that the management was happy to wait for the settlement of the Ottoman floating debt before it engaged in other banking activities.Even after the Muharem decree the bank showed no investing interest in projects concerning Greece,presumably judging that the cautious policy followed since 1876 should be continued.

In conclusion,one may say that the Societe Ottomane was in a position to realise good profits despite some poor years.The major embarrassment to the bank came from its involvement in Ottoman finances.The suspension of the service of the Ottoman Debt caused the bank losses and at the same time forced its management to be more cautious.The conservative policy followed by the bank after 1876,however,did not prove particularly successful.The bank succeeded in surviving and making moderate profits,but they were still far less than those of the Banque de Con/ple.The management's insistence on a cautious policy perhaps deprived the

Table XI;Societe Ottomane
Total assets.

Source:Annual reports of the Bank.



bank of some investment opportunities.Yet it appears this policy was essential as the bank had extended its activities with the Ottoman government far beyond its capital resources.The Societe Ottomane employed almost the same amount of capital in these transaction with the other two banks,but its capital resources were much smaller.In this way one may say the bank was forced to limit its activities because in the long term only the settlement of the Ottoman debt could take the bank out of its difficult position.In addition the commercial recession of the late 1870's was a major setback for the bank's commercial transactions and severely affected its net profits.This additional difficulty,however,was only partly responsible for the relatively small profits of that later period,mainly because the Societe Ottomane's embarrassments were mostly connected with the fate of Ottoman finances.

Evaluation:The presentation of the activities of these three banking establishments highlights some of the major aspects of Greek banking in Con/ple.Similarities and differencies did exist but all these establishments followed the same policy.They heavily involved themselves in Ottoman finances until October 1875.After the declaration of the Ottoman suspension of debt service they attempted a gradual disengagement from the financing of the Ottoman state.However,developments beyond their control,such as the Turco-Russian war,and a feeling of general insecurity made all three of them extremely cautious during this later period.One reason for this was that a large part of their advances made during 1875 and 1876 were unredeemed.Safeguarding the service of their earlier advances along with the service of those conducted after 1876 became the basis of their policy.Of course this policy could be applied to every single banking institution operating in Con/ple,from the Imperial Bank and the large private houses,to the small bankers who never lent the to government more than a few thousand pounds.The pressure exercised on the Ottoman government by local banking houses,including the three banks under consideration,led to the signing of the convention of November 1879 which finally settled the debts of the Ottoman government towards them.Moreover the signing of the Muharem decree two years later proved to be a further security for the unredeemed part of the floating debt of the late 1870's.In this way the three banks succeeded in recovering their capital.

Disengagement from Ottoman finances,however,was dealt with a different way by each bank.The Societe Generale and the Societe Ottomane safeguarded their capital resources and applied a conservative policy,lending gradually less money to the government and waiting for the settlement of the floating debt.Particularly in the case of the Societe Generale this cautious policy led in addition to a reduction of its capital.Conversely the Banque de Con/ple followed a different pattern.Although it also limited its advances to the Ottoman government,this bank concentrated a large part of its activities on investments abroad,without waiting for a settlement of the money advanced to the government.Greece,in particular,appeared to be a promising new field for investments and this is clearly shown by the annual reports of the late 1870's and early 1880's.

Profits on the other hand continued to be high.Throughout the period under consideration all three banking establishments enjoyed large profits,despite the fact that they were faced with a significant financial crisis.This is perhaps the most revealing aspect of banking activities in Con/ple because one might have expected that,particularly after 1875,profits would have been much more moderate or even non-existent.It must be emphasised that management was a very important factor in the realisation of large profits.All three banking establishments were directed by extremely efficient boards which were responsible for their progress.This fact is highlighted by the proportion of profits distributed to management.The board of the Societe Ottomane received 35% of net profits for its contribution,while that of the Bank of Con/ple received the smaler,but still very high proportion of 20%.The arrangement was different in the case of the Societe Generale whose board received only 4% of net profits.This low percentage however should be considered as an incentive to potential investors rather than an indication that the board's importance was not recognised.

One may assume therefore,that the position of these banks was sound enough.They involved themselves mostly in transactions with the Ottoman government while they did not participate in sectors which might have affected their interests.That is particularly true with regard to speculation which was widespread during the period 1871-74.There is evidence to believe that the Societe Generale was tempted by speculation and in fact during 1873 it involved itself in such transactions to an important extent.But it is also certain that this bank was not involved in this game for long and consequently it suffered no damages.Conversely,the other two banks abstained almost entirely from speculation.According to the Levant Herald, "When these two establishments of which one[the bank of Con/ple]has a speculative reputation,came scatheless out of the crisis of 1873...while all their neighbours were constrained to plead the crisis as a force major which had more or less neutralised their labours,it was currently insinuated that these dividends were not warranted by real position of the affairs of the two companies-that they were declared as a matter of policy to sustain the shares in the market-that no realised profits justified them and that the shareholders of 1874 were benefitting at the expense of those of succeeding years.The result however,emphatically belies these insinuations.Both the Bank of Con/ple and the Societe Ottomane are able to show a sound position and to declare dividends which may compare favourably with those of the best joint-stock banks in London.There exists no trace in the accounts of either institution of the speculative tendencies to which we adverted above...In both establishments it is clear that speculation is not their business." [LEVANT HERALD,5/4/1875].

CHAPTER IX.The placing of Greek loans on the Con/ple money market.

The Greek National loans,1862-1877.

During the period 1850-70,the Greek economy presented the typical features of capitalist underdevelopment.The burden of the agricultural sector was,to say the least,heavy.Industrial production,with the exception of the island of Syra and the port of Piraeus,was rudimentary;The system of transportation poor and the urbanisation process limited.In addition,banditry in the country spread insecurity,and had became a major threat to the rural population.

Despite all these problems new developments were under way.Agricultural production had become export-oriented and was closely linked with European markets.Exports increased drastically.The production and exports of currants alone,had increased fourfold between 1850 and 1875 [Kendriki Ypiresia,Phakelos Stratiotikai kai Statistikai pliroforiai(1877),in A.Y.E].The development of export oriented sector in Greece was realised at the expense of grain cultivation.As already pointed out,grain cultivation was closely associated with subsistence farming.Therefore any change in the patterns of agricultural production towards the export oriented economy might well be considered as a further step towards integration into the world economy.Given the fact that the export oriented economy in Greece was relatively developed one may assume the integration of the Greek economy in the world economy was near completion.Certainly,integration did not necessarily produce industrialisation,let alone that in the long term the concrete pattern of integration had negative effects for the Greek economy.At the time however,integration into the world economy produced incentives for further development in agricultural production.Consequently the money surplus deriving from agriculture inevitably increased.

The positive aspects of integration notwithstanding,Greece faced sharp problems.The most important was the permanently deficient balance of trade.In fact Greece was a net importer of grain and foodstuffs.Conversely exports,if increased,could not match imports.In the event,trade deficits became a fundamental aspect of the Greek economy [SINARELIS(1985)349-370].Such deficits were responsible for a continuous drain of exchange and gold to Europe,thus affecting the country's limited capital resources.

Not surprisingly,shortage of capital inevitably affected the Greek state.Current needs were increasing,thus absorbing the meagre resources of the state.What is more important however is the Greek state's exclusion from the European money markets.Since the suspension of the service of the two loans contracted during the Greek War of independence,and presumably as a punitive measure,European bankers abstained from lending the Greek state [DERTILIS(1984)146-150].Some attempts to settle the Greek Debt proved futile,due mainly to Great Britain's opposition,which thought that the settlement of this Debt might lead to the rearmament of the Greek Army.This development was considered,and not without reason,to be a threat to the stability of the Ottoman empire,the support of which was the basis of British policy in the Eastern Meditterranean.

In addition,Greece had agreed to pay 900.000 fr annually for the service of the unredeemed loan of 1832 which was guaranteed by the three Protecting powers.Greece conceded to this demand in 1860 when she signed a convention with Great Britain,the largest holder of this loan,France,and Russia [DERTILIS(1984)157].According to this convention,the Greek state was obliged to give priority to the payment of this annuity which absorbed a large part of its small revenues.This development however,did not bring the financial isolation of the Greek state to an end.In spite of increasing European investments in foreign loans,Greece was ignored.

In view of these difficulties,the Greek state resorted to internal borrowing.The growth of the Greek internal Debt began during the 1860's.Until then,this debt was non-existent.[see Table I].The resort to internal borrowing,however,was initially undertaken with caution.The first loan of 6 million dr followed a second of the same amount one year later.The Greek government contracted its first large loan of 28 million dr(=25 million fr) in 1867.After that date and until the final settlement of the Greek foreign Debt in 1878,the total amount of internal borrowing exceeded 100 million fr.

The most important aspect of the Greek loans contracted in that period was their connection with the political and military developments in the area.All loans were contracted to finance directly militaty expenses or to cover the budget deficits deriving from similar expenditure.The policy of the "Megali Idea",or Great Idea,strongly associated with the expansion of the Greek state,was predominant among the political parties in Greece.Political developments within the Ottoman empire,particularly the outbreak of the revolt in Crete-a largely Greek inhabited island-reinforced expansionist ideas which inevitably implied military readiness.However,military preparation proved a heavy burden for the Greek state.The indirect participation of Greece in the Cretan revolt finally led to the contraction of the loan of 28 million dr in 1867.The possibility of a war with Turkey and the repercussions of the revolt in Crete,such as the relief of 60.000 refugees who fled to Greece in 1868,considerably influenced Greek politics.The Greek parliament went so far as to vote in favour of an extra loan of 100 million dr which,hopefully,was never contracted [A&P(1868-69)LXI Greece,326/27].Yet,in an attempt to find additional funds,the Greek state negotiated in 1868 a loan with the National Bank of Greece and the Ionian Bank.The loan led to the enforced circulation of banknotes issued by these banks and added to the National Debt 12 million dr.The cancellation of the enforced circulation a year later,necessitated the contraction of another loan of 9 million dr this time with the National Bank.

However,continuous borrowing apart from demonstrating the shortage of liquidity which the Greek state faced,created enormous problems.In order to cover accumulated budget deficits successive Greek governments(a British consul observed that no government remained in office for more than eleven months on average)were forced to contract more loans.Extraordinary expenses were always expected to be covered by further internal borrowing.Commenting on the contraction of a 4 million loan in 1871,Watson,the Secretary of the British Embassy in Athens reported that, "one of the chief obstacles of obtaining a clear idea of Hellenic finances lies in the fact of supplementary credits being each year voted for the service of several Departments.Thus the Chamber,before its dissolution,voted on account of previous deficits for the Ministry of Foreign Affairs the suplementary sum of 635.000dr;for that of Justice,180.000;for that of the Interior,651.000;for that of the War,1.310.000;and for that of the Finance,1.204.000dr;to meet which the Government was authorised to contract a fresh loan of 4 million fr,on the security of a third of the returns of the Custom-House of Syra" [A&P(1871)LXVII,Greece,Athens,265-66].

The financial burden of interest and sinking fund paid by the Greek state for the loans contracted between 1862 and 1868 proved to be heavy indeed.For this reason the government contracted a new loan of 29 million dr with the purpose of converting the various high interest loans to a Genaral low interest Greek National Debt [A&P(1875)LXXIV,Greece,226-8,A&P(1875)LXXVI,The Piraeus,1215-16].In contrast to previously contracted loans whose interest rates varied between 8 and 13%,the new loan bore the modest rate of 6.5%.

However,political developments in Turkey,particularly the escallation of hostilities between Serbia and Montenegro on one side and Turkey on the other,triggered off a new fever of patriotic enthusiasm in Greece.These developments led to an increase in military expenditure.For this purpose the Koumoundouros government raised the loan of 10 million dr bearing an interest of 8.5% [A&P(1877)LXXXI,Greece,376-77].In an attempt to induce people to invest in this loan the Greek government reduced the issue price further,from 81 to 79 [[A&P(1877)LXXXIII,The Piraeus,1350-51].The amount which the Greek state would pay annually for the service of this loan was 541.851 dr.This was the last loan contracted before the settlement of Greece's foreign Debt in 1878;during the period 1862-1877 the Greek state borrowed a total sum of 129 million dr the service of which absorbed on average 15% of its annual revenues [ECONOMIKI EPITH.IX,58-59,KATASTATIKON ETHNIKES TRAPEZES TES HELLADOS:1882,110-113,A&P(1875)LLIV,Greece,229-33,A&P(1871)LXVII,Greece,163-67, (1)].

One must point out,however,that not all loans were offered for public subscription.Some of them were advanced by the National and in some cases and by the Ionian Bank.Only three loans were raised through public subscription:that of 4 million dr in 1871 which was entirely absorbed in Athens;that of 28 million dr in 1867;and that of 10 million dr in 1876.Conversely,the loan of 29 million dr represented the renewal of previous debts to various Greek banks and only a small part was finally offered for public subscription.

The terms of these loans were unfavourable to the GreeK state.In a period when states with access to European money markets paid interest of 3.5%-5%,the Greek state had to pay 10%.In addition,one must stress that the exclusion of the Greek state from European money markets inevitably contributed to high interest rates.For this exclusion further restricted capital supply in Greece thus affecting interest rates.Yet,one may also assume that the Greek state offered high interest rates in order to tempt investors.In a way high rates and the regular service of the Debt were the government's only cards,or to put it in a diffenent way,the necessary price it had to pay in order to obtain credit.

Understandably,strong incentives had to be provided to all individuals willing to invest in the Greek loans.With the regular service of its debt,the Greek state attempted to establish its solvency both in the country and in the various Greek colonies in the Ottoman Empire,Egypt and Europe.Certainly the Greek state did not expect to attract foreign investors.It rather wanted,not unreasonably,to attract the capital of Greeks living outside the Greek kingdom.Cut off from the European money markets the Greek state hoped to find in the Greek colonies the answer to its financial problems.As already pointed out,these colonies represented a considerably more wealthy community than the Greek kingdom itself.That was true not only with regard to the colonies of the Ottoman empire but those of Egypt and Europe as well.Indeed,if properly invested,the capital of Greeks living outside the Kingdom could,so it was thought,become a panacea to the Greek State.

For this reason the Greek state attempted to attract this capital.The National loans could,therefore,be the right mechanism to attract the capital of Greeks living abroad.Not surprisingly,Con/ple with its large Greek population and wealthy business community was thought to be the proper city for placing the National loans.The economic environment in Con/ple was favourable.As already pointed out,banking and financial activities in Con/ple were at the time flourishing.The Greek community of the city enjoyed wealth and prosperity.Quite reasonably therefore it was hoped that part of Greek loans could be successfully raised there through public subscription.In addition,the interests of the National Bank of Greece,the largest single contractor of Greek loans,in this city were represented by the house of Zarifi & Zafiropoulo.Understandably,this cooperation meant,so it was believed,that Zarifi would undertake the placing of Greek loans on Con/ple.In addition,it was also hoped that other prominent Greek merchants and bankers of this city would react with enthusiasm and participate in the loans.In the event,however,the placing of Greek bonds in Con/ple money market did not live up to the expectations of the Greek state.

Greek bonds appeared in the Con/ple Stock exchange in a period of increasing financial activities.The high issue price of the loans was counterbalanced by high interest rates.As already pointed out,Greek capital in Con/ple was heavily involved in banking,particularly through the financing of the Ottoman state.To a degree the Greek loans coincided with the shift of Greek capital to banking and finance.This,however,did not imply that capitalists would buy bonds of the Hellenic state simply because they themselves happened to be Greeks.That was a major misunderstanding which the Greek State had never anticipated.Certainly the patriotic response was often strong,but never among the leading Greek bankers and merchants,the people the Greek state most wanted to attract.The response mainly came from the less wealthy Greeks who found profitable as well as patriotic to invest in Greek loans.This is not to say that the Greek bankers had less patriotic feelings than the dozens of petty-merchants,priests,sailors and housewifes who finally bought large quantities of Greek bonds.As already mentioned,the contribution of the leading Greek bankers of Con/ple to the cultural development of the Greek community was considerable.And yet,subsidising societes,music companies etc,or building schools and institutions of higher education was much more expensive than buying 1000 or 2000 Greek bonds.This seeming paradox could be explained if one takes into account that banking and patriotism are not always compatible.Therefore,Greek bankers acted both as Greeks who contributed to the development of their community,and bankers whose interests led them not to invest in the Greek loans.

The correspondence of the house of Zarifi& Zafiropoulo with the National Bank of Greece provides sufficient material with regard to the placing Greek loans on Con/ple.In April 1867,the National Bank notified Zarifi of its intention to place bonds of the 1867 loan on the Con/ple money market.Zarifi was reluctant.He refused to undertake the public subscription in this city,on the grounds that the loan was destined to cover military expenditure (2).His thoughts about the fate of the loan were clear "Supposing,and I do not doubt it,the Greek parliament votes in favour of the loan and its issuing is successful.What does the Greek Treasury gain?Receiving less than 20 million fr,it will be endebted with 25 million fr.At the same time annual payments for the service of the loan will reach 2.800.000 dr(=2.545454 fr).This amount is such a heavy burden that it will not take long before the government recognises that the loan was a bad choice.Greek finances will not improve because of the loan.The solvency of the Greek state would be at stake.Of course,some ardent partisans[of the Great Idea] will say that,with the loan,armies will be formed and Turkish provinces will be gained.I say that in this way it is impossible to gain provinces.The only way[to do so]is to build roads,to do away with brigandage and to balance the budget.To achieve all these however,the Constitution must be suspended for ten years and Greece should be left to the patriotic judgement of the king.I don't want to predict the worst but in view of the present situation the loan will fail.In a way this should be expected because those who bought shares in the Greek Navigation company are not satisfied.Personally I hold shares in this company to the value of 50.000dr.Along with my partners we hold bonds of the 6 million dr loan of the same amount.Although I consider the money invested in the Navigation company lost,while the coupons of the 6 million loan,expired four months ago,are still unredeemed,I subscribe for 100 bonds of the new loan...I do so,not because I think I help my country,but because I do not want to be in opposition."[ETE,letter dated 5/4/1867].

In the event,Zarifi proved right;public subscription in Con/ple for the 1867 loan failed

[ANDREADES(1925)73-74,DERTILIS(1979)24].According to Syngros's memoirs"The Greek consulate in Con/ple had formed a committee with the purpose of collecting subscriptions for the loan.However the committee failed miserably:I subscribed for 50.000 fr but I doubt if the total amount of subcription exceeded 500.000 fr" [SYNGROS(1908)II,187].However,one should not come to the conclusion that the loan's failure derived from the opposition of Con/politan Greeks to the irredentist policies of the Hellenic state.Indeed Zarifi's views were only partly accepted among Greeks in Turkey.It is known that there were many Greeks in Turkey who welcomed the policies of the Greek state.Therefore the Greek state could rely on the support of,at least,part of the Greek population living in the Empire.Yet,this did not happen.Or at least it happened only to a small extent.What really kept the Greeks in Turkey from investing in the Cretan loan was the prospect of a national defeat [DERTILIS(1979)24].One may assume with reasonable certainty,that a Greek defeat in a war with Turkey would ruin the finances of the Greek kingdom and in consequence the money placed on the loan would be lost.

The end of the Cretan insurection found the Greek state with empty coffers.Much worse,the loan of 28 million dr had failed.Despite the fact that not only banks,but also public institutions and even orphanages had participated in the loan,only half of the bonds were finally sold [SYNGROS(1908)II,187-188].In view of this situation the Greek government accepted a proposal submitted by the National Bank.It was agreed that the interest rate would increase from 8% to 9%.Extra interest was thought to be a good incentive which would facilitate the purchase of unsold bonds.Moreover,regular payment of coupons would become a major priority of the state.

In addition,the end of war in Crete and the prospects of peace in the region,if temporary,changed the disposition of investors towards the loan.This development is highlighted by the interference of two Con/politan bankers,Syngros and Baltazzi,who negotiated the purchase of the unsold bonds.The two Greek bankers stepped into the scene in autumn 1869.According to Syngros-who recounts this transaction without mentioning Baltazzi's participation-the Greek government in order to dispose of the rest of the bonds,worth some 3 million fr,was willing to sell them at a considerable discount.Syngros,realising the profits he could extract from the loan,informed the government of his intention to buy the unsold bonds.He went to Athens where he signed a contract with the government and then he immediately advanced 300.000 fr.Baltazzi on the other hand bought his share through his agents in Athens [DERTILIS(1979)27].

The move of the two bankers brought the desired results.The prices of the bonds,which Syngros had bought at 192 fr,began moving upwards.Individual investors,especially those living in Greek colonies,were now attracted by the bonds.This development led Syngros to boast that"I do believe my involvement ....affected many[Greeks]in Turkey and Trieste,who,convinced by my example decided to purchase large numbers of bonds." [SYNGROS(1908)II,195].The mass purchase of bonds by Syngros and Baltazzi reestablished the solvency of the Greek state which at the time was at the lowest levels.In this context,Syngros's conversation with the Greek Foreign Minister is revealing.Syngros recalls that"On the following day[of the signing of the contact] I received a visit from S Valaoritis,the Greek Foreign Minister,who announced to me the government's decision to award me the Golden Cross of the Saviour....He also wanted me to sell him bonds of the

1867 loan to the amount of 50.000 fr.I promised him I would do so,but I did not miss the opportunity to ask him why he had not bought of these bonds before.He replied:I trust ,you know well why you bought them(the unsold bonds)"[SYNGROS(1908)II,193-94].In the event,when Syngros left Athens he had alredy sold bonds to the value of 300.000 fr.It is obvious that the involvement of the two bankers had nothing to do with patriotism.Only the prospects of high profit brought the bankers into the scene.As Syngros himself put it"I only conducted business".Yet this interference should not be interpreted from a moral point of view.At the time,economic considerations were more important and one should not blame the bankers for it.

The new disposition towards the loan is also highlighted by Zarifi's attitude.In February 1870 Zarifi notified the National Bank of his intension to undertake the selling of unsold bonds in Con/ple.However,Zarifi was still reluctant to buy bonds on his own account.He simply agreed to undertake the placing of bonds on commission [ETE,letter dated,11/2/1870].Between February 1870 and September 1873,the house of Zarifi & Zafiropoulo sold on behalf of the National Bank 1500 bonds representing a nominal value of 375.000 fr.Therefore,during 1870 Greek bonds of the 1867 loan appeared in Con/ple in large numbers.The mass purchase of such bonds by Syngros and Baltazi had already affected prices.In a few months the price of bonds bearing 8% reached 202 fr while that of bonds of 9% reached 210.Yet,despite the acceptance of Greek bonds in the Con/ple Stock exchange their placing continued to be difficult.According to a letter of Zarifi to Renieris there were only a few buyers who,in addition,were never willing to purchase more than 100 bonds [ETE,letter dated 11/2/1870].Even Syngros himself was facing difficulties in selling his bonds.During

February 1870 he was forced to sell bonds to the tune of 198 each thus losing part of the premium.Yet,although not spectacular,demand for these bonds was rising and consequently their prices continued to increase.In 1874 the 8% bonds were priced at 251 fr exceeding thus their nominal value,while that of bonds bearing 9% had reached 261 fr.Their price remained almost unchanged throughout the 1870's.

Apart from the mass purchase of bonds by Syngros and Baltazzi,the only large transaction concerning such bonds took place during 1874-75.In fact a large number of the 1867 loan bonds,exceeding probably 10.000,was resold to Greece.From 1874 forward,the house of Zarifi & Zafiropoulo paid much smaller amounts for the servicing of that loan.This development is also recorded by Merlin,the British charge d'affaires in Piraeus who reported in 1874 that, "That the inhabitants of the Piraeus are more wealthy than formerly may be gathered also from the fact that the large quantity of Greek stock,consisting of shares of the National Bank and of Government securities sent here for sale from Turkey and Europe have been absorbed and that the fall in the value of such securities,notwithstanding the threatening aspect of political affairs in the East has not exceeded 4 to 5%."[A&P(1877)LXXXIII,The Piraeus,1347].

One may conclude that the placing of the 1867 loan was relatively successful.The total number of bonds sold in Con/ple both before and after the rate conversion although it did not live up to the expectations of the Greek state was satisfactory.Judging from the amounts the house of Zarifi paid for the service of the loan,the number of bonds sold in Con/ple did not exceed 25.000.This figure represented one forth of the total number of bonds issued by the Greek state.No doubt this number also included the bonds sold in Con/ple by Syngros and Baltazzi.

Public subscription for the loans of 26 and 10 million fr in Con/ple,was also undertaken by the house of Zarifi & Zafiropulo.As already mentioned,only a small part of the loan of 26 million fr was offered to public subscription.According to a report of Merlin the loan was divided into the following way:the National Bank of Greece assumed Bonds of the new loan for the conversion of other securities held by it to the amount of 14 million fr;the Ionian Bank in exchange for bonds of the late Ionian Treasury held by it,assumed bonds to the amount of 1.627.500.Other societies,banks and public institutions assumed bonds to the amount of 6.372.500;and bonds valued at 4.000.000 were disposed of through public subscription [A&P(1875)LXXVI,The Piraeus,1215].

It is obvious that this loan was raised to remit earliest debts.In this case Public subscription as such,played only a marginal role.The total number of bonds offered to individual investors was 8000.As a consequence only a small part of the loan was placed on Con/ple where public subscription absorbed 1027 bonds.This figure represented 12% of the total number of bonds offered for subscription.In addition,the house of Zarifi sold bonds on behalf of the National Bank of Greece.Following the terms of the Bank,which set the price of each bond at 410 fr,Zarifi sold 800 bonds.However it is also known that a number of bonds of the 1874 loan was transacted in the Con/ple stock exchange through individual intermediaries [ETE,letter dated,4/8/1875].Even so however,it is unlikely that the total number of bonds circulating in Con/ple ever exceeded 2000.

Once again the leading Greek bankers of Con/ple remained indifferent towards the loan.In fact,no leading banker purchased bonds of the 26 million fr loan.Zarifi himself declined an offer by the National Bank for 500 bonds on favourable terms [ETE,letter dated,9/4/1875].In view of Zarifi's participation in every investment in Greece made by Con/politan bankers this is particularly revealing.Zarifi,in company with Syngros,Baltazzi and many other bankers,had participated directly in the establishment of the Credit General of Athens [DERTILIS(1980)35-36].He had also participated in the Credit Industriel and the Laurium Company.In the case of the Laurium company Zarifi asked the National Bank to mediate on his behalf and buy 5000 shares in the company.Although he finally obtained only 400 he was satisfied [ETE,letter dated,25/4/1873].Yet,Zarifi's attitude was not an isolated case.Other Greek bankers heavily involved themselves in these investments,though without participating in the Greek loans of the period.

Similar attitudes were displayed towards the loan of 10 million fr which was offered for public subscription in February 1877.In Con/ple the loan was unsuccessful.Public subscription in this city absorbed 1300 bonds representing a nominal value of 325.000fr.The fact that public subscription was concluded only in September 1877 is an indication of how small the demand was.According to Zarifi's correspondence with the National Bank there were only a few buyers.In addition,many Con/politan Greeks preferred to buy bonds directly in Athens [ETE,letter dated,27/4/1877].Even so,the total amount of bonds of the 1877 loan held by Greeks of Con/ple appears to have been limited.

The only exception was Zarifi's sister,E Zarifi,who bought 800 bonds,more than half of the total amount sold in Con/ple [ETE,letter dated 4/5/1877].Zarifi credited the failure of the loan to "the price of bonds,which high as it is,does not induce ordinary people to buy them.In addition,the brochure for the loan was not published at the proper moment.It is true the brochure was posted up in our offices but this is not enough.Besides,we should take into consideration that the holders of bonds of the 26 million loan enjoy higher benefits and this is the main reason for of the failure."[ETE,letter dated 21/2/1877.]

Zarifi's opinion however,is only partly correct.As far as the price of bonds of the 1877 loan is concerned,it should be stressed that it was significantly lower than that of other loans.Their nominal price was 250 while the real one varied between 200 and 210fr.Conversely,the price of bonds of the 1873 loan was 420 fr.Therefore it was not the high price which averted people from purchasing bonds of the 1877 loan.It was rather the general lack of interest in these bonds which led to the failure of the loan.It is also likely that the Ottoman suspension of payments contributed to the failure.It seems that petty investors had in general lost confidence in State bonds and,consequently,did not invest in the 1877 loan despite the fact the Greek Debt was too small at the time and there was no danger of insolvency.The price of bonds of the 1877 loan remained at low levels throughout the rest 1870's.In 1879 their real price varied around 200 fr.

It appears,therefore,that only the bonds of the 1867 loan cicrulated in Con/ple in large numbers.The loan of 26 million fr was covered almost exclusively in Athens and only a small part was offered for public subcription in the City.Finally the placing of the 1877 loan on Con/ple was a failure and the circulation of such bonds very small.Therefore only a small part of Greek loans was finally absorbed in Con/ple.Not surprisingly,the overwhelming majority of these bonds was purchased by Greeks living in Con/ple and Turkey in general.Despite the fact that the National Bank of Greece,the largest single creditor of the Greek state,attempted to place bonds at its disposal in Con/ple through the house of Zarifi & Zafiropoulo,it appears that demand for Greek bonds was inadequate,with the exception,perhaps,of those of the 1867 loan.Judging from the total number of coupons paid by the house of Zarifi for the service of Greek loans,it appears that the total nominal value of Greek bonds held in Con/ple did not exceed 8.000.000 fr.This amount was small and disproportionate to the economic power of Con/politan Greeks.In addition,if one takes into account that a large part of those bonds was held by Greeks living in Smyrna, Adrianople(Edirne),the islands of Eastern Aegean etc,it appears that Greeks of Turkey only marginally invested in the Greek loans.This is particularly true of the leading Greek bankers and merchants,the group which could contribute most to the successful placing of the Greek bonds on Con/ple.

Of course there is always the possibility that a number of bonds circulated in Turkey without being registered by the House of Zarifi.This,however,seems rather unlikely and if it did happen it was probably on a very limited scale.For the house of Zarifi & Zafiropoulo was the only establishment in Turkey authorized to service the payment of the Greek loans;therefore all bondholders in Turkey had to send their coupons there for payment.Indeed Zarifi's correspondence with the National bank provides a detailed and,by and large,complete account of coupon payments including those of holders living outside Con/ple.In addition,due to the free movement of exchange and gold,it is unlikely that bondholders living in Turkey sent their coupons in Athens for payments.The National Bank of Greece was always in a position to provide the necessary amounts of money to assure the payment of coupons of bondholders living outside Greece.Let alone that Zarifi was always willing to assist the bank in case of an emergency.

The reasons which led Greek bankers not to invest in Greek loans are associated with two factors:the possibility of alternative investments in Turkey;and the exclusion of the Greek state from Europen money markets.Alternative investment within Turkey was linked to the financing of the Ottoman State.Between 1870 and 1874 the Ottoman state raised loans amounting to £ 140 million.The issue prices of these loans was very low,the average price being 59.2 of the nominal one.[see below,Chap I,27].In addition short term advances to the Ottoman Treasury absorbed a large proportion of local capital.High interest rates,considerably higher than those of the Greek loans,lured capitalists who might otherwise have invested in the Greek loans.Therefore,it is reasonable to assume that the financing of the Ottoman state proved a far more convenient and profitable outlet for Greek capital.

Yet the difference in issue prices and the high interest rates for short term advances to the Ottoman Treasury are not enough to explain the failure of the Greek loans.Without underestimating these factors,one should underline that the exclusion of the Greek state from European money markets was the major factor which made Greek bankers eschew investing in the Greek loans.As already pointed out,the Greek bankers and merchants of Con/ple were interested in bonds which could be used to obtain credit.In contrast to Ottoman bonds,Greek bankers could not use the bonds of the Hellenic State as a guarantee to obtain credit.Nor in addition could they dispose of them quickly,in case they were in need of liquidity.For these reasons no leading Greek banker purchased large numbers of Greek bonds.Only Syngros and Baltazzi bought such bonds in large quantities,but they sold them as quickly as possible benefitting from the premium.One may assume therefore,that as far as the Greek bankers are concerned,Greek bonds were useless.

Then who bought these bonds after all?According to the catalogues provided by Zarifi most of the bondholders were ordinary people.Here a distinction should be made between the investment attitudes of Greek bankers and merchants and that of Greek petty investors.Greek bankers considered the usefulness of Greek loans in terms of credit facilities,while petty investors considered state bonds in terms of income.However,the attitude of Greek bankers and merchants is more important and certainly would have had more significant consequences.Conversely the attitude of petty investors did not impinge upon the financial considerations of Greek bankers.Petty-investors were mainly interested in high rates,and from an economic point of view Greek bonds were more profitable than Ottoman ones.No doubt the fact the Greek state paid regularly and in gold the coupons of its loans was a major factor tempting petty investors to buy Greek bonds.Indeed the real annual payment for Greek loans exceeded in 1877 seven million dr,representing 17 % of the total state revenues.[see Table II, (3)].It is reasonable,therefore,to believe that the regular service of the Debt established the solvency of the Greek state and pushed the Prices of Greek bonds upwards.That was particularly true for the loans contracted before 1876 because the loan of 10 million dr was seriously affected by the Ottoman suspension of payments.Despite the fact this suspension spread panic among individual investors,the prices of the Greek bonds were not affected.However,one may add that other factors also contributed to the high prices of Greek bonds.The most important,perhaps,are political developments between 1869 and 1875.Indeed after the end of the Cretan insurrection in 1869,and until 1875,political tranquillity was established in the region.The Eastern Question had entered a temporary respite.In Greece itself,the politics of the Great Idea lost ground.Prospects of political stability soothed the anxieties of investors and facilitated the expansion of financial and banking transactions.

Summarising,it appears that the involvement of Con/politan Greek bankers in the Greek loans was negligible.Conversely,it was Greek petty investors who bought and held the bonds of the Hellenic state and only due to their involvement was the placing of Greek bonds on Con/ple finally achieved.Despite the fact most of the Greek bankers were involved in other investments in Greece,such as the Credit General,the Laurium company etc,they avoided investments in Greek loans.The "shift",therefore,of Con/politan capital to Greece was not associated with the Greek loans.

Con/politan Greek bankers involved themselves in Greek loans only after the settlement of the Greek foreign Debt in 1878.This shift concerned not only private banking houses,but also,and foremost,banks such as the Banque de Con/ple.After 1878 the bonds of the Hellenic state could be used in the same way as the bonds of any state not excluded from the Europen money markets.With the major obstacle removed,Greek bankers and banking houses in Con/ple had no reason not to invest in Greek loans.

This particular attitude of Con/politan bankers towards the Greek loans reveals two major aspects of their activities.One is the dependent place of Greek bankers vis-a-vis European money markets,or to put in another way,the dominant role of European capital.Greek bankers,already dependent on European credit were obliged to conform to the financial rules of the European capital markets.The bonds of states excluded from there were useless.Since the money market of Con/ple was conditional upon European credit and,therefore,upon the priorities and choices of European capitalism the involvement of Greek bankers in Greek loans before 1878 was inevitably negligible.

In addition,this particular attitude of Greek bankers reveals another aspect of their profile.The Ottoman empire remained the centre of their activities.Although the introduction of foreign capital into the Ottoman empire inevitably reduced their profits,they continued to consider Turkey as the main field for investment.It is true that some attempts were made to find alternative investments abroad,and particularly in Greece,where the Con/politan bankers participated in the major investments of the late 1870's and early 1880's.Even in view of these developments,Greece,as far as investments were concerned was the second best choice.The only exception to the rule,was the Banque de Con/ple which diversified its activities and disengaged itself from Turkey to a considerable extent.

TABLE I:The Greek Internal Debt.(in dr)

Year	Amount	Issue price	Interest rate
1862-63	6.000.000	100	7
1864-65	6.000.000	-	8
1866-68	16.000.000	-	8
1868	28.000.000	80	8
1869	12.000.000	-	6
1870	9.000.000	-	9.5
1871	4.000.000	80	9
1874	29.000.000	81	7
1875	8.500.000	-	8
1876-77	10.000.000	79	8

Sources:A&P:1871,LXVII,Greece,Report on the financial position of Greece:1875,LXXIV,Greece,Report on Finance Trade and Agriculture During year 1874.KATASTATIKON TES ETHNIKES TRAPEZES TES HELLADOS:1982.

TABLE II:Public Debt Payments.(in dr)

Year	Total expenditure	Payments of external Debt	Payments of Internal Debt
1866/67	28.373.383	1.075.000	1.875.870
1867/68	32.990.123	1.075.000	3.159.870
1868/69	34.605.254	1.075.000	3.163.070
1869/70	34.088.197	1.025.000	5.309.870
1870/71	34.498.262	1.025.000	6.414.860
1871/72	37.889.853	1.025.000	6.897.290
1872/73	35.929.035	1.025.000	7.121.617
1873/74	41.722.408	1.025.000	6.523.410

1874/75	39.062.184	1.025.000	6.478.832
1875/76	39.063.836	1.025.000	6.433.499
1876/77	41.067.825	1.025.000	7.287.749

Sources:A&P,Greece,1871,LXVII:1875,LXXIV:1876,LXXIII:1877,LXXXI.

Notes to CHAPTER IX.

(1):If one takes into account the Greek foreign Debt,the total National debt far exceeded this sum.Indeed the total debt,including unredeemed annuities for the 1824-25 loans reached 300 million dr.

(2):Zarifi's apprehensions derived from article 12 of the law of the loan of 28 million dr.This article reads as follows."Two thirds of the established capital will be employed for the purchase of new ships as well as the provision of the Army and Navy,and the remaining one third will service other military needs.For this reason,the Ministries of the Army and Navy will issue orders of payment drawn on the Treasury.The National Bank of Greece which collects the capital of the loan will be responsible for redeeming these orders" [PHILLON EPHIMERIDOS TIS KEVERNISEOS,13/April/1867].Zafiri feared the armament of Greece might lead to war with Turkey.If he agreed to undertake the public subscription in Con/ple,the Ottoman government might considered this act to be hostile.This could have ruined the confidence and regard which the Ottoman government held for Zarifi with unforeseeable implications on the activities of his house.

(3):The amount that the Greek government devoted to the servicing of the Internal debt far exceeded the annuitites of the 1832 loan to the great exasperation of the British Embassy in Athens.[A&P ,see also Table II].However,the allotment of payment between internal and foreign debt was a direct result of the Greek state's exclusion from the European money markets,as well as the way the service of the 1832 loan was settled.In both cases,the responsibilities of Great Britain were great.

CHAPTER X: The road to the establishment of the Ottoman Public Debt Administration: Financial diplomacy and the role of Greek bankers.

On the 3rd of October 1875 the Ottoman government announced that payments for the service of its public debt would be reduced by half [BLAISDEL(1929)80-83,DU VELAY(1903)326].In recompensation,the bondholders would receive bonds bearing 5% interest.This extraordinary measure would last for five years.Only the 1855 loan,which was guaranteed by England and France,would be excluded from the measure.In a dispatch submitted to the British government in London,the Turkish Minister of Finance Safvet appealed to the bondholders for understanding.Turkey,he said,was forced to adopt this measure because its revenues were near exhaustion.He added that although the measure would harm many interests the government had decided to proceed with it [A&P(1876)LXXXIV,10].

There is evidence to support the view that the Ottoman government had been considering a reduction of interest payments for quite a long time.As already mentioned,Henry Elliot,the British Ambassador in Con/ple,informed Lord Derby that the Grand Vizier had decided to announce a reduction in the rate of interest.[A&P(11876)LXXXIV,2].In addition,the Inspector of the Imperial Bank,Homberg,in his report regarding the developments between October 1875 and January 1876,reported that many Ottoman officials,obviously aware in advance of the reduction,had disposed of their bonds before the 5th of October.[AN F30/356,report dated 31/1/1876].

The Ottoman suspension of payments triggered of new developments and struck a fatal blow to the solvency of the Ottoman State.The immediate result of the suspension was the exclusion of the Ottoman state from the European money markets.The public in Europe,on whom the placing of any loan depended,lost confidence in Ottoman finances.Thus,while the European banks were always in a position to form a syndicate and issue a fresh loan,from then on it was certain that money raised through public subscription would be disastrously inadequate.Meanwhile,in view of the circumstances the European banks were extremely reluctant to advance capital to the Porte out of their own coffers.In reality most of these banks had only a marginal interest in Turkish finances.Most of the European syndicates which had issued loans before 1875,had acted as contractors and were liquidated as soon as they had disposed of the bonds to the public.In the event,due to the public's loss of confidence in Ottoman finances,European banks were unwilling to involve themselves in issuing new Ottoman loans.

Conversely,the position of local banks,including the Imperial Bank,was considerably affected by the Ottoman suspension.The bulk of the capital of local banks was invested in short term advances to the Treasury.Individual capitalists who had placed their capital at the disposal of these banks, knew that the government could also revoke the payment of these advances which had not been granted a specific guarantee.Understandably,therefore,local bankers faced a severe problem:how to get this capital back.Paradoxically,the only way to achieve this was to make new advances to the government and try to obtain guarantees which would also assure payment of their previous advances (see above,Ch IV).Consequently,they were forced to participate more actively in the conduct of Ottoman finances,and take a more active stand in general.

These developments eventually led to the formation of two rival groups:the first group included the European bondholders of Turkish stock,namely the holders of the Ottoman foreign Debt;the second group consisted of those banks and banking houses of Con/ple and Europe which,to a greater or lesser extent,were associated with the floating debt.Given the problematic and critical position of Ottoman finances as well as the limited resources of the Ottoman state the interests of these two groups were not identical;simply there was not enough money for both of them.

The European Powers eventually stepped into the scene.Each of them was ready to protect the interests of its own subjects and at the same time to pursue its individual policy.Rivalry in this case was taken for granted.The European struggle for predominance had developed into a game between six Powers.Germany and Italy had joined Great Britain,France,Russia and Austria.This conflict led the Powers having different and not always consistent attitudes towards the settlement of the Ottoman Public debt and towards the Ottoman empire in general.

The last,and by no means least important,factor was the Ottoman state itself.With its finances ruined,its revenues declining and a Balkan war at hand,the Ottoman government had to deal with all these factors,to make its own choices and to favour one financial group against the other and vice versa.The Ottoman government was playing its own game,had its own priorities and,most important,aimed to prevent foreigners from taking control of its revenues.Rivalry,therefore,was the predominant aspect of that period:rivalry between financial groups;rivalry between local bankers and European Powers;rivalry among the European Powers themselves;and finally rivalry between the Ottoman government and all the others.

Not surprisingly,European bondholders responded to the suspension of payments with fury.Many individual bondholders protested strongly sending letters to the British government and asking for its immediate intervention [A&P(1876)LXXXIV,12-13].In addition,European holders of Turkish stock began forming their syndicates almost as soon as the Ottoman government announced its measures.The holders of the 1854,1858 and 1871 loans,guaranteed by the Egyptian Tribute formed a syndicate on the 26th of October 1875.It was headed by E Palmer,an English private banker who,at the same time,held the office of the Deputy Governor of the Bank of England [A&P(1876)LXXXIV,29].The bondholders of the 1862 loan,headed by E Clark,formed their syndicate the same week.Finally the holders of the General Debt and of various other loans decided to form their own syndicate a few weeks later.Similar developments occured in France where the different French interests formed their respective syndicates.

The representatives of the Tribute loans conferred with Lord Derby on 16th November 1875.They argued that the Ottoman government had violated their rights by taking their security to pay back unsecured creditors.This accusation concerned the payment of loans not guaranteed by specific revenues such as,for example,the General debt which alone constituted a considerable part of the Ottoman debt.They also emphasised that most of the public in England was tempted to invest in Turkish stock after some senior British officials,such as Lord Russell and Layard,expressed their confidence in the Ottoman finances and encouraged people to put their money into these loans[A&P(1876)LXXXIV,34].

The method of payment of the Public debt finally became an apple of discord among European capitalists.The Ottoman Debt,whose nominal value was equal to £214 million,was divided into two categories:the secured loans amounting to £ 43 million,and the unsecured loans which made up the rest of the Debt.No specific security was assigned to the service of the second category loans.In the contracts it was usually stipulated that the service of these loans was dependent on the General revenues of the empire without,however,mentioning special securities.

The holders of the secured loans resented Turkey's attempts to revoke their securities in order to pay all the bondholders.At the same time,the holders of the unsecured loans being in a precarious position,were anxious to come to terms with the Ottoman government as soon as possible.As one might expect,this group was more willing to compromise.In December 1875,the syndicate of various unsecured Ottoman loans produced a detailed plan for the future settlement of the Ottoman debt.The project worked out by C Hammond M.P,under whose name it appeared,was published on 13th December 1875.It contemplated the reduction of the Ottoman Public Debt from £ 214 million to £118 million.This second figure represented the real amount borrowed by the Ottoman state between 1854 and 1874,plus 10%.Interest rates would remain the same,but interest and sinking fund payment would be calculated on the reduced amount.All securities and hypothecated revenues,apart from the Egyptian Tribute,would be paid over to a joint committee in Con/ple whose members would be elected by the bondholders [For the full project see A&P(1876)LXXXIV,63].

In reality,however,the Hammond project represented a compromise between the two major groups of English holders:the syndicate of the Tribute loans and that of the various Ottoman loans.In a meeting held on 7 December 1875 the two committees came to terms with one another accepting the plan as a basis for negotiations with the Ottoman government [ROSE and STANIFORTH(1876)1-2].The Palmer committee agreed on such a scheme provided that the Egyptian Tribute would be excluded from the service of other loans and would be kept aside for the service of the Tribute loans.As far as the reduction of the Ottoman debt was concerned,it became clear that no settlement could be made without a reduction of the total Debt.

At the same time,the representatives of the various English and French committees in Con/ple,apart from undermining each others activities,strove to obtain the official backing of their respective ambassadors.The British government,extremely anxious not to affect Turkey's precarious position,declined to back any individual group unless the various committees come to terms with one another.Henry Elliot,the British ambassador in Con/ple,was instructed to give only unofficial support to the representatives of the various British committees[A&P,ibid,69].Elliot himself was embarrassed by the insistence of those representatives,to the extent he once replied to the representative of the committee of the 1862 loan that"while advocating the wishes of one section of British subjects interested,I might be acting in a manner which the other section would consider injurious."[A&P(1876)LXXXIV,54].

The Ottoman government also played its own game.With an official note dated October 22 1875,it announced its intention of introducing financial reforms which would increase the state revenues.At the same time,however,it announced that it would not increase taxation or impose extraordinary taxes as this would sap the most productive sources of Turkey[A&P,ibid,39].In other words,the bondholders ought to accept its policies.In addition,the government tryed to play off one group against the other.According to a letter from Musuros Pasha,the Ottoman minister in London,to Lord Derby,the government found it impossible to establish a demarcation line between different groups of bondholders without being accused of having decided to sacrifice certain interests [A&P(1876)LXXXIV,57].Accordingly,the Government was not prepared to consider any project unless it was unanimously accepted by all groups.

Since the Hammond plan was accepted by some of the major syndicates of English holders it might have provided the basis for negotiations with the Ottoman government.Moreover,Hammond informed Lord Derby that the French press had praised his scheme and recommended its immediate adoption by the French syndicates [A&P(1876)LXXXIV,71].In the event,however,compromise was not reached.Opposition to the Hammond project was spreading,especially among small individual holders.According to a letter sent to Lord Derby by a bondholder, "The individuals who advocate that scheme are large capitalists who hold principally in the oldest loans...and consequently are quite content to throw off and give up a considerable sum of the nominal...knowing that if they can only make a portion secure to their satisfaction they must come well out.I feel sure this proposed scheme would not meet the approval of the general holder throughout this and other countries;it is absolute surrender of both principal and interest which is not asked or intended."[A&P(1876)LXXXIV,68].

Yet,the failure of this project should not be attributed to the opposition of small holders.It should rather be attributed to the rift between Hammond and Palmer.Although the project itself was not disputed,Hammond decided not to join the committee appointed by the December meeting to initiate negotiations with the Ottoman government.At a second meeting held in early January 1876,Hammond objected altogether to the names of the proposed negotiators.He then formed a committee of his own [A&P(1876)LXXXIV,80-81].

The reasons which led Hammond to take this step were connected with the duties assigned to the committee.The committee was to carry out the negotiations with the Ottoman government using the Hammond project as a basis but being ready to adopt any necessary modification to the plan in order to reach an agreement.In addition,Otway,Palmer's representative in Con/ple was conducting negotiations with the French syndicates on the same lines.He also used the Hammond scheme as a basis.Hammond,however,declared that the scheme must be accepted as it stood.Presumably the representatives of the committee in Con/ple might have proceeded to further concessions in order to secure an agreement with the government and negotiations with the French syndicates could have led to similar compromises.In both cases any agreement might fall far short of the initial scheme and any such change would have harmed Hammond's group more severely.In the event,Hammond decided to go to Con/ple and present his scheme to the Grand Vizier personally.Some of the members of the committee protested strongly against Hammond's mission to Con/ple and claimed it was unauthorized [Elliot to Derby in A&P(1876)LXXXIV,76].In addition,due to the rift among the bondholders,Palmer decided to sent his son,G Palmer,to Con/ple to discuss with the government any problem related to the Tribute loans [A&P(1876)LXXXIV,77].

On the 30th of January 1876 Hammond arrived in Con/ple.The Turkish government,which continued to play one group against the other,expressed its embarrassment to Elliot regarding whom it should recognise as representative of the bondholders [A&P,ibid,87].Hammond,however,discussed his scheme with the Grand Vizier but when he left Con/ple one week later he had obtained no definite answer to his proposals.The government once more argued that unless foreign bondholders reached an agreement among themselves,it could not take any proposal under serious consideration.

Sir Phillip Rose and John Staniforth,the representatives of the English committee,reached Con/ple in early March 1876.Although the Hammond scheme was abandoned,the idea on which it was based,namely the reduction of the Ottoman debt to a Unified general stock,remained valid [A&P,1877,XCII,5].However the means of obtaining the necessary resources for the service of the Ottoman debt were subjected to a radical modification.

The Scouloudi plan.

Disagreements among European committees notwithstanding,a new development was under way.It was connected with a project originated by the Greek banker,E Scouloudi,who was a member of the managing board of the Banque de Con/ple.Scouloudi's scheme contemplated the unification of Turkey's funded and floating debt into a General Debt.In addition,a new company would be found,the Societe Fermiere,which would secure the service of the Public debt by farming out state revenues.Scouloudi,who presumably had worked out this scheme with his colleagues in the Banque de Con/ple and probably with other local bankers as well,went to Europe to discuss it with the major European syndicates.According to the report produced by Rose and Staniforth on behalf of the major English committee,Scouloudi's plan evoked a cordial response both in Paris and London [ROSE and STANIFORTH(1876)8-9].It also appears that this project was known to the French Embassy as early as February 1876.According to a letter addressed to the French Foreign Minister,Homberg,the Ottoman government was considering the possibility of ceding to a Farming Company the revenues of certain vilayets to service the floating Debt.It also reported that, "Les principaux créanciers de la Dette Flotante...concourraient tres certainement a la compagnie fermiere qui exigerair pour son exploitation un capital restreint et donnerait dès tres brillant resultats."[AN F30/356,letter dated 10/2/1876].

This information,however,was only partly correct.True,Scouloudi envisaged the establishment of a Societe Fermiere,but his plan included not only the floating but the funded debt as well.The reasons for this ostensibly "unselfish"attitude are obvious.Scouloudi himself,and all other local bankers who held the floating debt,considered that the unification of the Turkish debt could better safeguard their interests.If they proceeded by themselves,local bankers would certainly have had to cope with the opposition of European syndicates whereas with this combination they would gain the alliance of,at least some,of the European bondholders.In the event,the Scouloudi plan which for obvious reasons was not elaborated in detail,was met with an unprecedented consent.

Staniforth and Rose-who arrived in Con/ple on the second of March 1876-were extremely favourable to this scheme.According to their report, "The experience and knowledge of the local bankers as to the available resources which the government could set apart for their creditors,specially qualified them to initiate proposals for an equitable readjustment of the Turkish debt,and among the many suggestions...a proposal based upon a general conversion of all the existing loans into one uniform debt,comprising also the Floating Debt,seemed to recommend itself as the most advantageous."[ROSE and STANIFORTH(1876)7].Scouloudi's plan had a strong advantage.Apart from the reduction of the Ottoman debt, which was common to all the projects,his plan did not contemplate the appointment of an International Commission.Instead,the idea of a Farming company could be easily accepted by the Ottoman government which was resolved to withstand any attempt to establish an International commission at all costs.The idea of a Farming company could be more easily accepted since it did not involve foreign control.

However,there were still problems to be solved.The most important was that of the Tribute loans.Palmer's committee,which represented these loans,was in fact pressing for their exclusion from any settlement of the Turkish debt.For this reason Palmer presented Mahmud Nedhim,who was the Grand Vizier at the time,with a proposal according to which he would accept a reduction of the Tribute loans' sinking fund,but the Turkish side should have to leave the status of these loans unchanged [Elliot to Derby in A&P(1877)XCII,1-2].The Ottoman government in its turn,wanted to discharge the revenues assigned to the service of these loans,namely the Egyptian Tribute,and apply it to the service of other loans as well.

When Rose and Staniforth arrived in Con/ple the situation regarding the problem of the Tribute loans was far from being solved.A week after their arrival there the two representatives were joined by the Vicompte Du Manoir,representative of the French bondholders.When the three conferred with Mahmud Nedhim they realised that the Ottoman government was not prepared to deal with the Tribute loans separately.In addition,Mahmud insisted that any future settlement of the Ottoman debt should provide for the liquidation of the floating debt which according to him,was almost out of control.The Grand Vizier,however,was willing to discuss any combination which would relieve the Treasury and at the same time satisfy the bondholders.The two British representatives were aware that Mahmud was indeed willing to consent to a settlement based on the Scouloudi scheme.Scouloudi himself,during his visit in London had urged them to take immediate action so as to benefit from Mahmud's good intentions and to avoid the risk of any change in government [ROSE and STANIFORTH(1876)9].Indeed,during the same conference Mahmud laid down the basis upon which alone the negotiations could rest.This basis limited the amount assigned to the service of the Turkish Debt to £T 8.000.000.This amount included the interest on the floating debt.

As was to be expected,the problem of the Tribute loans arose again.Palmer's son,G Palmer who was in Con/ple at the time,was unwilling to consent to the inclusion of the Tribune loans in the unified debt.After long and repeated discussions,however,he and the other three representatives were led to the conclusion that the reduction of the Ottoman debt was inevitable and the only solution to the problem was"to distribute the necessary reduction over all the loans by a rule of-three principle,which had the effect of reducing the nominal amount of each loan about 6% below its issue price."[ROSE and STANIFORTH(1876)20-21].In addition,it was agreed that the service of the unified Ottoman debt would be undertaken by a Societe Fermiere that was to be established and administered in Con/ple.In this way Scouloudi's plan had been accepted by European holders.

Since the major Ottoman demands had been met,the Grand Vizier requested the representatives of the bondholders to prepare the necessary documents for signature.In mid April 1876 therefore,it seemed that the settlement of the Ottoman debt was imminent.On the 15th April 1876 the Levant Herald welcomed the project.In addition the newspaper pointed out that"We have reason to believe that several influential members of the Haute finance in Paris and London have intimated their adhesion to the project of Mr Scouloudi.".Henry Elliot informed Lord Derby about the conclusion of the negotiations.Although not enthusiastic about the plan,Elliot seemed to favour it.[A&P(1877)XCII,14-15].Moreover,Elliot informed Derby that the nomination of Ghalib Pasha as Minister of Finance in the place of Yusuf Pasha indicated that the Ottoman government was willing to accept the project.[A&P(1877)XCII,20].

The final contract,however,could not be signed until some important problems had been solved.The most important of these was associated with the new company's capital;the second with the responsibilities,limits,and rights of the company itself.With regard to this second problem the Levant Herald pointed out that,

"If the government promise no more than the fact,and figures justify it in promising,the Societe fermiere calls for nothing more than honourable and careful administration and a moderate command of means.These conditions are fulfilled by the Banque de Con/ple and its present adherents.But if the promises of the government exceed the means at its commands,no matter how strongly the Societe Fermiere may be backed,it will not be able to sustain its position.The only key to the situation is to fit the measure to the facts;let the government engage to pay only what it has and no more;the guarantees then become trustworthy and the mediation of the Societe Fermiere regularising the whole operation...will render important benefits to the government and the bondholders."[LEVANT HERALD,18/4/1876].

In fact this problem had to do with the Ottoman government:and,more specifically,whether it would accept the project in its entirety or not.The problem was a real one.Although the Grand Vizier was favourably disposed to the project his view was not shared by all members of the cabinet.For this reason Mahmud,through one of his trusties,had intimated to Rose and Staniforth that the proposed plan for farming out certain of the revenues would encounter opposition from some of his colleagues,who considered these measures as a threat to the Ottoman government [ROSE&STANIFORTH(1876)17].In view of these difficulties the Levant Herald also pointed out that, "It is a known fact to more than one possible chief of the future cabinet this measure is not acceptable....It seems therefore that the interest alike of the country and its bondholders,demand some Imperial assurance of continuity in the arrangements."[LEVANT HERALD,18/4/1876].Subsequent developments showed that internal opposition to the project was to prove decisive.

The company's financing on the other hand,was mainly associated with two problems.The first was the amount of capital engaged in the company.It was unlikely that Europeans would invest in the Societe Fermiere.They wanted some tangible indication that the finances of the Empire were on the right path before they would invest any money.However,local establishments were much more willing to invest in the company.According to the report by Rose and Staniforth, "no difficulty arise on their part to satisfy our requirements.Independently of the large profits anticipated from the farming of the revenues,some of the local establishments had already entered into negotiations with the Government on the basis of our agreement,by which they had offered to receive payment of their advances in the new stock at the rate of 45%..."[ROSE and STANIFORTH(1876)23].At a meeting of local bankers held in Galata on 15 April 1876,the support of local establishments for the project led to an immediate subscription of £ 3.000.000 out of the £ 3.600.000 required.At the same meeting,the bankers addressed an appeal to the Grand Vizier and asked for the immediate approval of Scouloudi's project.The document bore the signatures of Zarifi,Stefanovic,Mavrogordato,Hanson,and Mahsoud.It was also signed by the representatives of the Credit Lyonnais,the Banque de Con/ple the Societe Generale de l'Empire Ottoman,the Credit Ottoman,the Societe des Changes et Valeurs and and the London based company Dent,Palmer and Co.

The Grand Vizier informed the syndicate that his government was prepared to accept the project and asked for the preparation of the final documents.The agreement which was finally reached between the Porte and the syndicate of the Societe Fermiere was as follows.The Ottoman Debt would be reduced to 125 million Turkish pounds.The new Debt would bear 6% interest;96 million of this would be applied to the funded debt and 29 million to the floating debt.In order to guarantee payments the government ceded to the Societe Fermiere the administration of indirect taxes,inluding Customs,the tobacco duty,taxes on liquors,silk etc.In addition the tithes of certain districts would be set apart for the service of the Public debt.The Societe Fermiere was to collect the revenues directly.With its capital,the company would guarantee the payment of coupons.Finally the society would last for thirty years [ROSE and STANIFORTH(1876)32-33,LEVANT HERALD,20/4/1876].

As can be seen the Imperial Bank did not participate in the Societe Fermiere.The reason for this absence can be attributed to the fact that the position and privileges of the Bank had been ignored by the Ottoman state ever since the announcement of the suspension of payments in October 1875.The Imperial bank strongly opposed the extraordinary measures.However,despite the Bank's efforts,the government decided to ignore it [BILLIOTI(1908)49-50].After strong pressure the bank succeeded in obtaining an irade according to which it was ceded the right to collect the revenues of Indirect taxes and those of the Customs of Con/ple [AN F30/356,letter dated 31/1/1876].This privilege however was abolished after two months [BOUVIER(1962)702].Thus,one may assume that the bank had good reasons to resent any attempt by the government to further sap its position.Understandably,the management of the Imperial bank regarded the Societe Fermiere as an intruder.Despite the fact the Bank was also heavily involved in the floating Debt,and therefore had every reason to accept this settlement,it never participated in the negotiations and generally kept a low profile.Yet,although the bank kept aloof from the negotiations,it offered no opposition to the project itself.When the final agreement was reached however,the bank was forced to decide.It either had to undermine the syndicate of the Societe Fermiere or join it.After the management in Con/ple communicated the agreement to the Bank's headquarters in London and Paris it was decided to join the syndicate.The Levant Herald announced the Bank's decision on 27 April 1876, "Yielding to the request of the Grand Vizier the Imperial Bank has now placed itself,if not at the head of the undertaking,at least in the first rank of its promoters...".Two days later the same newspaper reported that"The Grand Vizier conferred with the Imperial bank and has expressed his desire that this establishment should take a prominent place in the arrangement of the Societe Fermiere.The Bank has now acceded to the wishes of the Grand Vizier and the Scouloudi plan now appears to have gathered about it the financial support....which was the only doubtful point."[LEVANT HERALD,27/4/1876].

However,it was not till the 6th of May that the bank finally signed the contract with the others.According to the Rose and Staniforth report this delay proved fatal.Negotiations for the signing of the document continued normally.The syndicate of the Societe Fermiere consented to a further reduction of the interest of the unified debt from 6 to 5 per cent [LEVANT HERALD,11/5/1876].The final document was ready for signature on 11 May 1876 and for this purpose Muhmud arranged an appointment with the syndicate's representatives.According to Rose and Staniforth,"on proceeding to the Porte on Thursday at 2 o'clock,we found indeed the Turkish clerks in waiting with the papers as promised in readiness for the Grand Vizier's signature,but the Grand Vizier had been removed from office a few moments before."[ROSE and STANIFORTH(1876)28].

As the negotiations neared completion,an insurrection broke out in the Balkan provinces.Yet,military developments did not seem a threat to the Societe Fermiere.According to Levant Herald of 22 April"The cabinet has approved the plan and the provisional contract is initiated.Under present political circumstances there will be obstacles to the immediate practical application of the project,but these will disappear with the cessation of political anxieties".Even the defeat of the Ottoman Army in Herzegovina a few days later did not seem to alter the government's views with regard to the Scouloudi project [LEVANT HERALD,27/4/76].However,due to continual political instability in the Balkans and the Serbian intervention,the Sultan changed his cabinet.Mahmud Nedhim,the main supporter of the project in the cabinet,was removed and replaced by Mehemed Rusdhi Pasha.Yusuf Pasha,who had strongly opposed the scheme in the first place and had been removed from office in April,rejoined the cabinet.The delicate balance which had favoured the scheme was no longer there.In spite of renewed negotiations the new Grand Vizier was adamant.In a meeting with the syndicate's representatives the Grand Vizier expressed the views of his government, "At this moment one-half of the empire is on fire.We are struggling for existence.Any financial arrangements made at such a moment would offer no guarantee to their application.When the country is pacified the government will immediately consider the best manner in which relief can be given to its creditors."[ROSE and STANIFORTH(1876)37].

That was the end of Scouloudi's project.One may reasonably assume that the views of the new Turkish government in the end did not favour such a project.In addition,Mehemed Rusdhi did not commit himself to any settlement of the Ottoman debt based on similar lines.Of course this attitude was only conjunctural,but at the time it was the refusal of the government to accept the idea of a Societe Fermiere which led to the failure of the project.

In addition,due to this failure,the alliance among different groups of creditors broke into its component parts.For the first time a major coalition of banks financiers and bondholders had agreed to a specific project.Not that all classes of bondholders had supported the plan:Hammond's committee along with another committee of English holders,that of the 1862 loan,strongly opposed it.The Austrian committee,which was mainly interested in the Rumelian Railways bonds,had its own plans:they demanded the establishment of an International committee which would undertake the service of coupons [ROSE and STANIFORTH(1876)19].However,the Scouloudi project succeeded in compromising two of the major classes of creditors:the holders of the floating debt and the two major syndicates of European bondholders.After the plan's failure each group of creditors followed its own course.As was to be expected,this led the different groups into new conflicts.

The interval of confusion.

The importance of the Scouloudi project was found in the idea of a company which would administer some of the empire's revenues.This company would have no connection with European governments and therefore Turkey would escape foreign control.Subsequent developments would show that this idea became the starting point of future negotiations.

Political and military developments during the summer of 1876 rendered the settlement of the Turkish debt more difficult.The replacement of the Sultan Abdul Aziz by Prince Murad and the dominance,if temporary,of liberal elements of the bureaucracy did not produce any solution.Foreign bondholders,however,continued to exercise pressure for a prompt settlememt of the debt.This was particularly true of the syndicates of the Tribute loans.In September 1876,the League of Tribute bondholders presented a scheme to the Porte which contemplated the reduction of interest on these loans.According to this scheme the Egyptian tribute would be reserved for the service of the two loans.In its major points the scheme resembled a similar project submitted to the government by G Palmer in February 1876 [A&P(1877)XCII,1-2].Not surprisingly the Government rejected it.The project offered the government no immediate relief,let alone that the bulk of the Ottoman debt remained unsettled.

In late 1876 the Ottoman government faced insuperable financial problems.The payment of interest,now reduced by half,was achieved at great effort and high cost.In view of political developments in the Balkans the Porte was forced to devote ever increasing amounts of revenue to military expenditure.On 27th December 1876 the Ottoman government finally announced that, "La loi du 6 Octobre,qui a porté le trouble dans l'économie financière de l'Empire en ébranlant son credit et en blessant le sentiment public de justice et de loyauté,doit être considerée dès aujourd'hui comme entièrement abrogée,et le Gouvernement se reserve de présenter aux Chambres...un projet de loi nouvelle propre à donner la meilleure satisfaction possible aux droits et aux intêrets des interets de sa dette publique,et à sauvegarder l'honneur de l'Empire."[Safvet Pasha to Musuros in A&P(1877)XCII,65].It appears,therefore,that the government had found a convenient way of evading the pressing financial reality.In this way the Porte evaded its immediate responsibilities and to transfer them to the newly elected Ottoman parliament.In the event,however,the Ottoman Assembly did not discuss the issue of the Ottoman debt mainly because it hardly had the time to do so.In the short period of its existence-December 1876 to February 1878-the Parliament had other,more pressing preoccupations.

The war with Russia in 1877 intensified the financial problems of the state.Due to increasing expenditure,and unable to meet its current expenses the government decided to come to terms with some of its creditors.It was thought that the settlement of part of the Ottoman debt would enable the government to issue a loan on the European markets.It was decided to initiate negotiations with the syndicates of the Tribute loans,presumably on the grounds that,in this case,a prompt solution was feasible.Besides,these syndicates were making the most pressing and urgent demands for a settlement of their interests.It is worth stressing that the representative of the League of Tribute loans,Stewart went so far as to ask for the arbitration of the English Court of Chancery [A&P(1877)XCII,102].In addition,unofficial negotiation with the delegates of the Tribute loans' bondholders were already in progress.In March 1877,the Porte intimated to the syndicates that it would initiate discussions with appointed delegates but no project could be accepted unless ratified by the Chamber [Tenderton to Stewart,in A&P(1877)XCII,90].

In September 1877,two members of the cabinet arrived in Con/ple to confer with the syndicates.After short negotiations the two parties signed a Convention which settled the question of the Tribute loans.According to this,the interest and sinking fund of both loans would be reduced.The holders of the 1871 loan agreed to defer receiving payment until the 1854 loan,of which 1.800.000 was still unredeemed,had been totally payed off.In this way a part of the Egyptian tribute would be left to meet other obligations [Musuros to Derby,in A&P(1878)LXXXII,34-37,DU VELAY(1903)369-371].After a while the Ottoman government attempted to place the 1877 "Defence" loan on the European money markets.The government assigned the remainder of the Egyptian Tribute to the service of the loan.As already mentioned,the loan failed miserably,a sign that European investors were not willing to support the government before the final settlement of the Ottoman debt.

In Con/ple the holders of the floating debt went their own way.Although no syndicate of the floating debt was officially founded,it was clear that an understanding existed among the holders of this debt.The development of the floating debt during this period has already been discussed.It is obvious that the holders of this debt did agree to pursue a common course.Since arrangements with foreign holders were not feasible,the local bankers' only hope was to secure an agreement on their own account with the Ottoman government.Certainly cooperation with foreign bondholders was not,by definition,excluded.What local bankers attempted to achieve was the inclusion of the floating debt in any settlement of the Ottoman debt.This opportunity missed,they were forced to follow their own course.Therefore,one may assume that an unofficial syndicate had been formed in Con/ple by local bankers,consisting of all concerned parties,including the Imperial Bank.

Their case was publicly presented by Mercret,the director of the Credit Lyonnais branch in Con/ple,in an article in a local newspaper.After estimating the floating debt at about £ T 12 million,Mercret argued that the service of the Public debt should be the government's first priority.Eight million out of the twelve represented the share of local bankers who "en des epoques tres critiques"advanced them to the Ottoman State.He claimed in addition,that the immediate redemption of this debt would enable local bankers to renew their advances to the government and help it to stand on its feet again.Whereas,if the government assumed the service of its Foreign debt at the expense of that of the floating debt,it would deprive the country of enormous amounts of capital needed at such a crucial time [COURRIER D'ORIENT,no 117,4/4/1877 in AN F30/356].Mercret was obviously alarmed by the prospects of a settlement of the Public Debt,due to increasing fears that a war with Russia was imminent.In order to fund the war the Ottoman government might rush to negotiate with its foreign creditors and settle its debt.If that happened,the interests of local bankers would certainly be harmed.For in order to assume the service of the Public debt the government would remove the bankers' guarantees for many of their advances conducted between 1875 and 1877.At this stage,however,the government was not interested in initiating negotiations with its foreign creditors.Remember that foreign holders continued to be divided and,therefore,no settlement could be reached with all parties concerned.

Yet,it was during the war with Russia that the position of local creditors vis-a-vis their foreign counterparts was strenghthened.Not only did they agree to absorb the Defence loan,but they also provided the government with various loans to meet its immediate and most pressing expenses[See above Chap VII,].This development provided the bankers with a strong argument in the following events.

Turkey's defeat in the war resulted in the Treaty of San Stefano in March 1878.The news of Russia's extreme demands had reached the creditors of the Ottoman State at an early stage.On 28th February 1878,almost two months after the armistice,the Chairman of the British holders of the Ottoman General Debt Guedalla,notified Salisbury about the terms of the Treaty.Guedalla expessed his alarm, "at the monstrous pretensions put forth by Russia which are calculated to completely ruin the unfortunate holders of existing Turkish loans."[Guedalla to Derby,in A&P(1878)LXXXII,27].Guedalla argued that the money had been lent to Turkey as an independent state whose existence was guaranteed by the Six European powers.The latter were to blame as they had "introduced" Turkey to European capitalists.Certainly this remark is exaggerated,to say the least,because European capitalists had wanted to be "introduced" to Turkey as much as the latter had wanted to collect their money.In the event,Guedala demanded the intervention of other European Powers to safeguard the interests of their citizens: "Should then any cession of Turkish territory be proposed,it will be the duty of the governments of the various countries whose respective subjects are interested in this question to protect their rights... by ensuring a just and proper provision for them in the Treaty of peace..."[A&P,ibid 28].

The final draft of the Treaty of San Stefano confirmed the fears of Turkey's creditors.Firstly the Ottoman government agreed to pay an enormous war indemnity amounting to 1.4 billion rubles.Yet this indemnity was reduced to 300 million rubles(=£T 35 million)after Turkey agreed to cede the Sandjak of Toulcha and the Western part of the Caucasus including the cities of Ardahan,Kars and Batum to Russia [A&P(1878)LXXXII,52,ANDERSON(1970)101].The Tribute of the Bulgarian Principality was to be decided by an agreement between Russia,the Ottoman government and the other cabinets.Yet,there was no mention of the fact that many of the revenues of the Bulgarian lands were hypothecated for the service of the Ottoman debt.

Understandably,these terms greatly alarmed the creditors.On 21 March 1878 a meeting was held in Con/ple.Presided over by Stefanovic and adressed by Deveaux,the Director of the Imperial Bank in Con/ple,this meeting declared that, "considerant que le Traite de paix que le gouvernment de la Porte a conclu....sera probablement l'occasion de remaniements territoriaux administratifs et financiers pouvant affecter les garanties donnees aux creanciers de la Turquie par les contrats et actes constitutifs de la Dette publique de cet empire,croyons qu'il est urgent pour les dits creanciers de demander aux Puissances...a intervenir dans le Traite de Paix en question ..la sauvegarde de leurs droits et la protection due a leurs legitimites interets."[A&P(1878)LXXXII,57-58].A similar demand was put forward by European holders.On April 3 1878 Guedalla also asked for official British intervention [A&P(1878)LXXXII,39-40]

On 15 April 1878,a Memorandum was submitted to all European Embassies in Con/ple.It was the result of the meeting of 21 March and contained the claims of local capitalists.The Memorandum was signed by all the leading bankers including Zarifi,Foster,Stefanovic,Eugenidi,Devaux,Tubini,Coronio and Fernandes [MEMORANDUM POUR LES DETENTEURS DE LA DETTE OTTOMANE(1882),see also A&P(1878)LXXXII,45-49].

According to this,the bankers asked the European Powers to intervene to safeguard their interests.The creditors'rights, "doivent etre sauvegardes tant vis a vis du Government Ottoman que de ceux qui pourront etre appeles a lui succeder dans la possession d'une partie de son territoire actuel."[MEMORANDUM(1878)46].What worried the local capitalists most was the cession of territories and the Bulgarian Tribute.The ambiguities of the San Stefano Treaty led the bankers to insist on these points.According to the memorandum the Treaty should have taken into account the fact that the revenues of the Danubian and Rumelian provinces were assigned to the service of the Public debt.The bankers claimed that the cession of the territories should not imply the dissociation of their revenues from the service of the Public Debt.The memorandum argued that in similar cases the new administration had undertaken part or all of the debt of the ceded provinces.Understandably,the bankers'major concern was the floating Debt.On this question the memorandum argued that the floating debt mainly consisted of the advances made to the government to service its Public debt and as such was guaranteed by special revenues,many of them affected by the Treaty [MEMORANDUM(1878)47].

In so far as the Bulgarian Tribute was concerned the memorandum argued that there was no provision for the rights of creditors or for the exact amount.In fact,according to the Treaty the settlement of the Tribute question was postponed for the following year [ANDERSON(1970)100].Not surprisingly,the memorandum referred also to the question of war indemnity.The bankers criticized the Treaty because there was no provision stipulating that Russia would present no claims on the old creditors' rights.It was thought that since no such stipulation appeared in the Treaty Russia might well claim priority over the service of the Public and floating Debts [MEMORANDUM(1878)46].In fact this was a hypothetical claim because the entire service of the Public Debt had been suspended the year before.It was rather a question of principle:the new creditor(Russia) should recognise the priority of the old one(local bankers and foreign bondholders) over the payments.

One may wonder why the Con/politan bankers were eager to protect the rights of foreign holders in the first place.The answer to this question lies in the role these bankers wanted to play.Not unreasonably,they felt their interests had been damaged by the San Stefano Treaty.As Turkey was becoming poorer,they had fewer opportunities to recover their money.Yet since they could not cancel the results of the war,they attempted to safeguard their guarantees as much as possible.They thought,therefore,that at this moment their interests were compatible with those of foreign bondholders.Not surprisingly when the question was posed in their meeting the reply was evident. "En luttant pour eux,les créanciers de la Dette Ottomane en Europe combattant aussi sans nul doute pour ceux de la Turquie,vu la solidarité de leurs intêrets;mais ces derniers doivent-ils..s'isoler de ce grand mouvement?...Poser la question,c'est évidemment la ressoudre.Les Detenteurs de la Dette Ottomane en Turquie,à l'instar de ceux d'Europe,doit donc s'unir et s'affirmer,et lutter eux aussi pour la defence des interets communs [A&P(1878)LXXXII,57].Moreover,one should take into account that local bankers held a respectable amount of Ottoman bonds.According to Mercret the value of Ottoman bonds held by Ottoman and other subjects who resided in Turkey,was 625 million fr [COURRIER D'ORIENT,4/4/1877].This amount represented one-eighth of the total Ottoman debt.Although there is no imformation about the exact number of bonds held by Con/politan bankers,one may assume that this represented more than half,because the Ottoman government continued to pledge unsold bonds as security on short term advances .True,local bankers were mainly interested in the settlement of the floating debt,but this does not imply that they were prepared to see Russia seizing their securities.The joint and strong opposition of Turkey's creditors to the terms of the San Stefano Treaty. contibuted to its abrogation.

In the event,due to the vigorous opposition of England and Austria to the Treaty of San Stefano,Russia consented to a new settlement of the Eastern Question.This development led to the Berlin Congress in July 1878.It was there that the creditors' claims found at least partial satisfaction.Their case was presented by the Italian representative,Comte Corti [BLAISDEL(1929)84-85].Yet his intervention certainly did not live up to the expectations of foreign bondholders.Comte Conti simply recommended to the Porte the acceptance of an International

Financial commission,the members of which would be appointed by the respective governments,and which would undertake to examine the claims of bondholders and propose means of settling the Ottoman debt in a way favourable to them [MORAWITZ(1902)55].

One might assume,therefore,think that the Congress of Berlin gave no satisfaction to the holders.In a strict sense this is correct:the Congress was only marginally engaged in settling the question of the Ottoman debt.What it did was to produce a provision calling for an International Commission.Karatheodori pasha,the Ottoman plenipotentiary at the Congress,unequivocally rejected the provision and merely promised that his government would be willing to satisfy the demands of the bondholders,but without foreign interference [MORAWITZ,ibid,DU VELAY(1903)377-378].Nevertheless,the Congress' final document included provisions which to some extent met the demands of Turkey's creditors.A part of the tribute of Eastern Rumelia would be reserved for the service of the Public debt.It was also stipulated that similar arrangements would be pursued with Serbia and Montenegro.In addition,Russia declared that it had no claims against the rights of bondholders.She accepted the principle of the priority of the old creditors vis-a-vis the payment of the war indemnity and satisfied herself with small instalments [DU VELAY(1903)378-379,BLAISDEL(1929)85].The Berlin Congress was the only instance when the creditors united to present their claims.Understandably,the conceived Russian threat to their interests exhorted them to do so.

This temporary collusion,however,quickly came to an end:the two groups continued to oppose each other over the question of priority on payments.This is not to say the two groups were homogeneous;division of interests was common within both groups.The division of interests among European bondholders has already been mentioned.A similar situation appeared among the group of the floating debt.It would be more correct to say that each local banker or bank attempted to secure its interests againsts foreign bondholders,and at the same time secure its position among the holders of the floating debt.It was in this context that alliances and conflicts occured within the group of the floating debt.In May 1878 for example,Zarifi obtained the revenues of the Con/ple Customs as security for an advance to the Treasury.The Imperial Bank strongly, if in vain,protested against this move because it considered it a violation of its privileges[BOUVIER(1962)711-712].This conflict,however,did not hinder either Zarifi or the Bank from comming to terms again and acting together against European bondholders.

Conflict amongst different syndicates and groups was the major feature of this period.The extent to which each group opposed the other is clearly shown in the case of the Toqueville scheme in 1879.Comte de Toqueville submitted a project to the Porte regarding the unification of its debt.The news of this scheme reached Con/ple in early February 1879.According to these rumours,the scheme contemplated the unification of Turkey's Public debt.The amount of the new funded debt as well as the interest rate would be reduced.In order to guarantee the service of the new funded debt the Ottoman government would hand over the administration of indirect revenues to an International committee.Toqueville promised to the Porte that if it accepted these terms he would advance it 200 million fr.Commenting on the main points of this project Neologos pointed out that the payment of interest on the new Funded Debt would begin only after the new administration of the indirect revenues had produced concrete results.Otherwise,the newspaper emphasised,the old and ineffective mechanism of obtaining a fresh loan to repay an old one would be renewed to the detriment of the economy.In addition,the newspaper suggested that the new loan should be used to liquidate the floating debt and to intitiate a new programme of financial reforms [NEOLOGOS,6/2/1879].

An agreement between the Porte and de Toqueville was finally reached in mid February [NEOLOGOS,17/2/1879].The main points of the final document did not differ from those published in Neologos in early February.There was,however,a condition;De Toqueville had a deadline of two months to meet.Within this period he should provide the government with the first instalment of the 200 million fr loan.Developments between February and March highlighted the conflicts among the various groups of creditors.

To begin with Toqueville did not represent any major group of financiers and bankers [BOUVIER(1962)715-717].He had,however,the sympathies of some of the European syndicates and,most importantly,the active support of the French government.He proceeded to negotiations with the government on his own account on the grounds he had the support of some Paris banks,particularly the Comptoir d'Escompte.In the event,this support was not at all secure.In addition,his project was not concerned with the floating Debt.Toqueville himself was not prepared to come to terms with local bankers.Despite the attempts of Mercret and Devaux to convince him to do so,he declined to reexamine his project on this point [BOUVIER,ibid].He,therefore,lost the sympathies of local bankers,if he had ever had them.In addition to that,the syndicate of European banks on whose credit he based his operation finally turned its back on him.According to Neologos, "the project of

Toqueville still remains a project...The guarantees provided by the Ottoman government did not live up to the bankers'demands"[NEOLOGOS,4/3/1879].

In order to meet his deadline and advance the first instalment of 50 million,Toqueville decided to turn to European bondholders for assistance.This move did not produce the desirable results;Toqueville remained totally isolated.Neologos commented on these developments as follows, "According to recent reports Comte de Toqueville has given up from trying to convince the big credit institutions of Paris and London to help him;he hopes instead to form a syndicate with the bondholders of Ottoman stock.Yet it seems that these bondholders...appear to be as demanding as the big bankers.The former did not accept Toqueville's terms whereas the latter asked for an increase in the guarantee granted by Turkey.If agreement with big bankers proved difficult,it will be much more difficult with the holders....For example,the committee of English bondholders[Guedalla] rejected the scheme,whereas the holders of the 1858 and 1862 loans are willing to assist Toqueville on condition they get at least £ 400.000 annually and take priority over any other class of bondholders...Toqueville's project is approaching total failure."[NEOLOGOS,13/3/1879].Finally Toqueville was not in a position to pay the first instalment to the Ottoman government.Despite a further four day deferment of the deadline he came out with nothing and the government abrogated the agreement [NEOLOGOS,18/3/1879].One may assume that Toqueville's project impinged upon the interests of all parties concerned.Since the project was not backed by any syndicate of creditors Toqueville inevitably had to abandon his scheme.He was refused assistance even from European bondholders whose interests this project was supposed to serve.On the other hand local bankers opposed the project since Toqueville was not prepared to compromise with them.One could assume,with reasonable safety,that local bankers would have been prepared to join him if he had agreed to include the settlement of the floating debt in his project.The Imperial Bank was also reluctant to support him.True,this bank wished to see an end to the financial deadlock,yet it was not prepared to sacrifice its own interests mainly associated with the floating debt.In other words the failure indicated how deeply the different syndicates were divided.

Nevertheless,Toqueville's scheme introduced a new element into the conflict;an International commission which would undertake the administration of indirect revenues.Certainly the idea of the commission was first introduced by the Scouloudi plan in 1876.Yet,Scouloudi's project contemplated the establishment of a Societe Fermiere,namely a financial operation,whereas Toqueville's plan provided for an administrative committee with an international character.However the exact nature of this committee was far from clear.The Ottoman government,understandably,emphasised that the committee should have a private character.It strongly opposed any committee whose function would imply foreign interference.When,for example,the Italian bondholders demanded the right to send their delegates to join the committee the Porte declined to accept them on the grounds that the administration of indirect revenues had a private character and,therefore,the Italians could well be represented by the appointed members of the committee [NEOLOGOS,28/2/1879].The idea of a committee administering revenues of the Ottoman empire became a basic demand of the creditors.In the event,it was on these lines that ,firstly ,the arrangement of the floating debt,and,subsequently,the settlement of the Ottoman Debt were realised.

Inevitably,the project of the Imperial bank which appeared on March 1879 was based on these lines.The Bank,realising that Toqueville had no chance of success,proposed a similar scheme.The bank would issue a loan of £ 21 million on behalf of the Ottoman State on condition the government agreed to hand over the administration of indirect revenues to a committee [DU VELAY(1908)387,BOUVIER(1962)718].These revenues consisted of the Con/ple customs,the tobacco salt and stamp revenues and the profit tax.According to a contemporary source,the loan of 21 million would be divided in the following way:12 million would be devoted to pay off the holders of the 1858,1862 and 1863-64 loans which were guaranteed by these revenues;3 million would be used to liquidate the internal loans guaranteed by the Customs revenues;and 6 million would be given to the government to carry out the promised financial reforms,namely the withdrawal of caime circulation [NEOLOGOS,8/5/1879].The Bank hoped that this combination would satisfy the interests,of at least some,of the creditors;the syndicates of the 1858 and 1862 loans and some of the Galata bankers who would receive some of their money back.It seems that the Bank had made a large concession to the bondholders by agreeing to include the payment of their loans in its scheme.For all special guarantees to the Ottoman Debt were abrogated since the suspension of payments.Yet,the Bank thought that in this way it could not only come to terms with some of the bondholders,but that it would also raise the loan in Europe without their opposition.

This combination,however,did not meet the demands of the rest of the European holders.Nor did it satisfy the holders of the floating debt.In the event,the syndicate of the 1858 and 1862 loans objected to the Bank using the pledged revenues,presumably in an attempt to get the maximum out of the deal [FO/78 2937,letter dated 10th May 1879].In addition other parts of the floating debt group actively opposed the scheme.Mercret in particular,exercised all the influence he had on the French Ambassador;he considered that the plan would pay the current account of the Imperial Bank but would neglect all the rest [BOUVIER(1962)718].This claim is not tenable since the project contemplated the service of other debts as well.

Nevertheless,Mercret was right to protest since the scheme left out the payment of the"quatre avances",in which the Credit Lyonnais had a respectable share.The Credit Lyonnais's opposition to the plan finally influenced the French government [BOUVIER(1962)719].The latter's reluctance to back the project proved a significant obstacle because it exerted pressure on the British side.On April 8 the Foreign Office informed the British Embassy in Con/ple that the British government would back the project but was prepared to give its official support only after the French government had been consulted [letter in FO/78 2936].On 10 May 1879 Lord Lyons,the British minister in Paris,informed Salisbuty that,after a months hesitation,the French government finally decided not to lend its support to the scheme on the grounds that it did not treat all the loans alike [A&P(1880)LXXXII,47].Since the British government was prepared to back the project only on condition that it also had the approval of the French government as well,the Imperial bank found itself in a difficult position.

Additional impediments were provided by the Ottoman government.The Grand Vizier himself feared the Bank was not sincere in the negotiations and did not intend to bring the loan forward [FO/78 2936,letter dated 17/4/1879].Moreover many cabinet members declared that the conditions of the project regarding the use of money allocated to the government were unacceptable.They argued that the withdrawal of paper money was already under way and,therefore,that the government should use this money to meet other current expenses,such as the demobilization of the army,payment of arrears etc [NEOLOGOS,13/5/1879].In view of these multiple objections to the project,the Bank was forced to abandon it,hoping for more favourable conditions.

Not surprisingly,the failure of the project did not mean the end of the negotiations.Quite the contrary.The Ottoman government was in great need of money and knew that it could get a loan only if it was prepared to come to terms with some of its creditors.It also knew that any agreement would imply the cession of Customs revenues and the administration of indirect revenues to the creditors.The only thing the government could do under these conditions was to cede as little as possible and extract as many concessions as it could.

In June 1879 a group of local bankers headed by Zarifi submitted a new project to the Porte.According to Layard,the new British Ambassador in Con/ple,Zarifi was prepared to grant a loan of £ 2 million to the government on the condition that he obtained the collection of Con/ple Customs and the administration of indirect taxes.In addition,Zarifi suggested that an increase in tariffs to last for five years was necessary.However,he asked the government to consult with the European Powers and seek their approval for the increase [FO/78 2952,letter dated 12/6/1879].Zarifi's project was finally published in late June.His group would grant the government a loan of £ 6 million,including the short term loans previously contracted.The Customs revenues would be hypothecated for the loan service.The administration of the Customs would be undertaken by a commission consisting of local bankers.However,the government would have the right to appoint them.In addition,the members of the commission should also be approved by the Foreign embassies.Zarifi did not neglect to promise that the rights of the holders of the 1858,1860,1862 loans would be respected.However,he emphasised that they should expect to be paid only after the lapse of three years [NEOLOGOS,25/6/1879].According to additional information,Zarifi insisted on the point that the new Customs administration be approved by the European powers.Otherwise,he and his group were not prepared to advance money [NEOLOGOS,27/6/1879].The Porte found itself in a difficult position.It badly needed the money,yet it was not prepared to accept the control of part of its revenues by an international committee.It was thought that once this committee was established the interference of Foreign Powers would inevitably increase.

Commenting on the project,Neologos pointed out that "the real question is whether the Porte has enough revenues[to carry out the administration]without ceding its indirect taxes as a guarantee for a loan....The Galata bankers offered the loan on condition that they control the collection of Custom revenues,whereas the administration proper will remain in the hands of the Porte.European economists disagree,pointing out that the collection of revenues will increase only if the administration is undertaken by Europeans.Not willing to accept this view the Porte is inclined to approve the offers of the Galata bankers.Additional impediments arose from the objection of bondholders who are not prepared to accept the cession of their guarantees...Could the Porte avoid the contraction of a new loan?If yes,then everything seems to be alright.If not,it has to accept the conditions(of Zarifi's group) on which the loan will be granted."[NEOLOGOS,10/7/1879].Finally,due to the government's objection to accepting the appointment of a committee controled by the Powers,the project was abandoned.

It was now realised that any future project should not involve direct foreign control.It was also realised that the settlement of the entire Ottoman Debt could not be achieved since the existing division between different groups made all projects unworkable.For these reasons,the groups which held the floating Debt decided to come to terms with one another.Zarifi had already submitted his project to the Imperial Bank and had opted for compromise.Neologos declared that, "Only the Imperial Bank,assisted by all other local establishments is able to achieve an effective combination."[NEOLOGOS,24/7/1879].By the autumn of 1879 negotiations between the government and local bankers,including the Imperial bank,were well under way.

Nevertheless,one may ask why the local bankers were in such a hurry to settle that part of the Ottoman debt which they held.After all,were not their advances guaranteed even at the expense of foreign bondholders?The answer to the question lies on the economic and financial conditions.The position of local bankers vis-a-vis the Ottoman government before March 1879 has already been mentioned.In the autumn of the same year the sitution was much the same as six months ago.The government's debt to the bankers was equal to approximately £T 8.5 million.Although these advances were guaranteed there was no guarantee that the government would stick to its word.The Ottoman finances were in such a bad state,that the government could not demobilize the Army one year after the end of the war.For example,commenting on a short term loan of £T 250.000 with the purpose of conducting demobilization,Neologos pointed out that the government should bind itself to devote the money to the demobilization of the Army.Otherwise there was a fear that the money would be spent for other purposes: "it is an established fact that when the government finds credit for a few thousand pounds,it receives dozens and dozens of applications demanding the liquidation of old debts."[NEOLOGOS,4/9/1879].Thus,pressed hard by immense financial difficulties and with inadequate revenues to cope with its immediate financial needs,the government could very well remove the guarantees for some,or all,the advances.In fact this was quite unlikely since after 1875,local bankers were the government's last,if limited,financial resort.Yet under such pressing conditions the bankers did not want to risk it.

In addition,the position of local banks remained precarious;a large part of their capital was tied up in short term advances to the Treasury.In many respects the circulation of capital in Con/ple remained much the same as before 1875.Some bankers lent their money to the government which used it to repay some other bankers,who again lent it back to the government etc.This vicious circle,however,could not last for ever.The money market of Con/ple possesed limited capital resources and the bankers were aware of it.This vicious cycle could be easily broken by the government if it decided to suspend payments of the floating debt altogether.After all,the payments of short term advances,if inadequate,deprived the government of money which could be used to meet other current expenses.

Not surprisingly the bankers considered private contracts as an insufficient,and by and large easily revoked,guarantee of their advances.Judging from previous projects,one may assume that the bankers attempted to "institutionalise" the settlement of the Public Debt.That is to say,they wanted the government to sign a more binding agreement securing their interests as much as possible under the circumstances.For this reason the bankers'demands included the administration of state revenues on their own account,a point which became the common denominator of all the projects after 1875.

As early as September 1879 local bankers were again in contact with the Government,asking for negotiations.This time they had agreed among themselves that joint action was necessary.In addition,the removal of Ahmet Arif Pasha from the office of the Grand Vizier in October 1879 aroused new hopes for a new settlement.Ahmet Arif's removal was due to a joint Anglo-French naval demonstration in the Marmara sea [DU VELAY(1903)397,BLAISDEL(1929)87].In fact both powers attempted to exercise pressure on the Ottoman government to reconsider its position vis-a-vis its creditors.Certainly,the government was not the only one to blame;the divided interests of the creditors and,to a lesser extent,the different policies of European powers also hampered the final solution of the financial question.The change in the cabinet,however,did not produce the desired results because Ahmet Arif's successor,Said Pasha strongly opposed any settlement which implied foreign control,favouring instead an agreement with the bankers [BOUVIER(1962)720].

The Convention of 22 November 1879:the prelude to the Ottoman Public Debt Administration.

The first signs of a settlement appeared in October 1879.According to a letter to Layard from Foster,the Director of the Imperial bank in Con/ple,a scheme had been presented to the government for discussion.The new project contemplated the farming out of the Customs revenues and the indirect revenues for a period of six years.The project was backed by the Imperial Bank,Zarifi,and the Societe Generale de l'Empire Ottoman.The rental would be calculated upon the receipts of five years before the war,approximately £ 3.5 million.It was also suggested that any increase in revenue should be equally divided between the government and the bankers [FO/78 2959,letter dated 10/10/1879].Foster himself was not happy with the project;he thought the period of six years inadequate,and insisted that the administration of these revenues shoud remain with the bankers.

Indeed,the question of which revenues would be assigned to the bankers became an apple of discord.The Ottoman government did not want to cede revenues which were relatively easy to collect and usually supplied a constant stream of revenues.The government,therefore,made its own proposals to the bankers in early November 1879.According to the government's counterproposals,the bankers would undertake the administration of some of the indirect revenues.They would also collect the Customs revenues,though their administration proper would remain with the government.In addition,the bankers would collect the Tributes of Eastern Rumelia and Cyprus.Then,the syndicate would divide the collected revenues into six equal parts,four of which would be used to pay the interest on the foreign,and two that of the Internal Debts [NEOLOGOS,3/11/1879].The bankers accepted the proposal but claimed that the revenues assigned to them were not enough.If the government was willing to cede more revenues,they were ready to form the syndicate which would undertake the administration of indirect revenues immediately

[NEOLOGOS,4/11/1879].The government appeared willing to consent to some of the bankers' demands;it suggested the cession of Customs revenues along with the tobacco monopoly and the Rumelian and Cyprus Tributes to a committee consisting of bankers.This committee would be responsible for the collection of revenues and their allocation among different classes of creditors.It was suggested the local bankers should receive £T 1.100.000 while the rest of the money should be given to the bondholders [NEOLOGOS,5/11/1879].The project proposed that the committee should give 125.000 each month to the government out of the customs revenues whereas the rest should be given to Zarifi for his advances were guaranteed by the Customs revenues.It was hoped,that sound administration could increase the Customs revenues from £T 3-3.5 million,where they stood at the time,to 6 million.If the combination was approved,the bankers would immediately advance £T 500.000 to the government to cover its current and most pressing needs [NEOLOGOS,6/11/1879].

Yet the Porte withdrew the approval for the scheme the following day,when it declared to the bankers that it was not prepared to cede them the Customs administration.The bankers,instead,considered the cession of Customs revenues as the basis of any settlement.This move was to a large extent justifiable because Customs revenues were the only important source of revenue that could be easily collected.The government,therefore,was not willing to assign it to the bankers' new administration no matter what.Commenting on these developments Neologos pointed out that, "The consecutive meetings show that the government deceives itself as to the condition of the local money market...The combinations under discussion would be perfect if it was possible to extract a possitive result out of them.Yet,the state needs money and no combination with the Galata bankers would bring this result.The local money market is exhausted and the bankers attend the meetings and advise the government because they want to take their money back and not to give more..."[NEOLOGOS 8/11/1879].

Foster also appeared to be pessimistic about the prospects of a deal.Telling Layard about the bankers'discussions with the Porte,he pointed out that, "I should have kept you more fully informed of the progress of the financial negotiations at the Porte,had I not hesitated to waste your time as mine has been during the last week at the Porte."[FO/78 2961,letter dated 8/11/1879].Foster,however,provided Layard with information about the government's latest proposals.Customs revenues apart,the government was willing to cede to the bankers the administration of the indirect revenues as well as the Eastern Rumelian Tribute.The government estimated these revenues at approximately £T 2.5 million.The committee would pay 1.340.000 to the bondholders and the rest to local bankers.Foster himself distrusted these estimates.He considered the figures provided by the government exaggerated and reckoned that the assigned revenues would yield an amount not exceeding £T 1.600.000.In addition,he was indignant that the government had deprived the bankers of the Customs revenues. "They console the bondholders and bankers by saying that under our administration the revenues assigned to us would be largely and rapidly increase.But if they make this admission why exclude the customs from the benefit of this improvement."[ibid,FO/78 2961].

The bankers considered the Porte's proposals before they submitted their own.They accepted the exclusion of Customs revenues but they demanded that the assigned revenues should be to the value of £T2.4 million.They suggested that the administration of six direct revenues,namely the taxes of silk,fish,spirits,stamps,tobacco and salt,as well as the collection of the Rumelian and Cyprus Tributes should be under their control [NEOLOGOS,10/11/1879].Nevertheless,out of these revenues only the tobacco and salt taxes were considered to be worthwhile.It was estimated that these two revenues yielded approximately £T 1.700.000.One may wonder why the bankers did not insist on keeping the Customs revenues for themselves.It appears that,in the last analysis,they were more eager to conclude an agreement as soon as possible rather than to obtain the administration of the Customs revenues.It is impossible to say whether the bankers insisted on these revenues as a bargaining counter only to secure a quick settlement.Unquestionably,however,the government's insistence on keeping the Customs influenced the course of the negotiations.Since the bankers had agreed with the government on the main points,they opted not to exert pressure on this question,fearing that their demand might lead the project to a deadend.Negotiations between the two parties continued over the following days.On November 14th Neologos announced that, "The financial question is approaching its final solution.At this moment there is complete understanding between the bankers and the government..."[NEOLOGOS,14/11/1879].The newspaper pointed out that this arrangement did not exclude the settlement of the country's foreign debt.The paper emphasised that local bankers would not object to the settlement of the Public debt,providing their own interests were protected.

On the 19th of November 1879,Zarifi and Fernandez,the two representatives of the local bankers,visited the Grand Vizier in order to discuss the final details of the Convention.A few days later the documents finally derived from the negotiations were published in Con/ple.According to the Convention the government would lease to a group of local bankers the collection of stamp and spirit tax,the fish tax of Con/ple and its suburbs,and the silk tax of the districts of Con/ple,Andrianople,Broussa,and Samsun.The government also gave up to the bankers the administration of the monololies of salt and tobaccos,with the exception of the tobacco tithe.The administration of these revenues would deduct from the receipts of every quarter £T275.000 which would be used to pay off the state's debt to the bankers.The new debt of £T 8.725.000 would bear a new ,lower,interest of 8% per annum.The six revenues were leased to the bankers for a period of ten years at the end of which period,it was hoped,that this debt would be liquidated (see APPENDIX II).

However,the agreement took into account the rights of the foreign bondholders as well.The Convention was accompanied by a decree which announced the resumption of the Debt service.The decree was communicated to the Foreign Missions and the commissions of the foreign bondholders (see APPENDIX III).The total ammount offered to the creditors,bankers and bondholders alike,was not to exceed £T 1.350.000 per annum.The bankers would receive the lion's share:£T 1.100.00 out of the total.The bondholders had to content themselves with the remaining £ T 250.000.The government also pledged the Tributes of Bulgaria,Eastern Rumelia,and Cyprus to the service of its internal and external Debt along with any contribution which Serbia,Bulgaria,and Montenegro might make to the Ottoman Public Debt (see APPENDIX III].In case the administration was not in a position to produce this amount the government bound itself to provide additional revenues.

The Convention was signed by the Ottoman government and a committee of bankers representing the most powerful banks and banking houses of Con/ple.The committee consisted of the representatives of the Imperial bank,Foster,Deveaux and J Von Haas,the Greek bankers G Zarifi,P Stefanovic,G Coronio,T Maurogordato,A Vlasto,L Zarifi and E Evgenidi,the representatives of the Cammondo and Tubini houses,S Fernandes and B Tubini,the representative of the Societe Ottomane A Barker.The Credit Lyonnais aslo took part in the Convention,though Mercret did not sign the document [BOUVIER(1962)721].One may assume that local bankers,namely the holders of the floatimg debt,were the main beneficiaries.They had succeeded in binding the Ottoman government with a Convention and at the same time they had managed to obtain the administration of certain State revenues.Conversely,the percentage allocated to foreign bondholders was,to say the least,a symbolic sum.On the other hand,the Ottoman government succeeded in imposing most of its demands.The administration of the Six revenues stipulated by the convention was not controlled by European Powers.Therefore foreign control of any kind had been avoided for the moment.In addition the government had retained the administration and revenues of the Customs revenues for its own account.Moreover the sum which it agreed to pay was far inferior to that mentioned in the first stages of the negotiations.

Contemporary accounts also support the view that the government succeeded in making concessions over less important issues and finally made the most out of the deal.In connection with the financial arangements of the Convention,the British Counsul in Con/ple Wrench,pointed out that, "The remaining indirect taxes were to a great extent at the mercy of a very ill-organised and corrupt administration and the income derived from them was uncertain and had latterly fallen off considerably....It is almost needless to say that the yield of the revenues assigned was,at the time of their assignment,altogether insufficient to pay the annuity to the bankers."[A&P,1880,LXX,Con/ple,1883].

The Convention of November 1879 was the result of a compromise between the bankers and the government.The bankers were in a position to control State revenues,though these were of doubtful importance.In this way they succeeded in securing priority of payments over the rest of the creditors.In a way this was a financial scandal because the bankers held only a very small amount of the Public debt.Scandals of this nature,however,were quite common and certainly the agreement with the government did not,and could not, impinge upon moral considerations.This is not to say that the bankers excluded an agreement with foreign holders by definition.They were prepared to do so as soon they had sufficient guarantees that their own interests would be safeguarded.For this reason,the bankers accepted that the Convention should have a provisional character and that the rights of foreign holders should remain intact [See APPENDIX II].As a consequence,the government was in a position to revoke the convention if a more representative settlement of the Public Debt could be reached.On the other hand,the government succeeded in avoiding foreign control and keeping the Customs revenues for itself.The Convention was the most important development since 1875 because it served as a model for the establishment of the Public Debt administration two years later.Yet,at the time,the interests of foreign holders were totally ignored.

Inevitably,the signing of the Convention encountered strong opposition from the foreign bondholders.They claimed that the Porte had deprived them of their guarantees.The French bondholders,whose interests were harmed mostly by the Convention,appealed to the Presidency of the French Republic for help [NEOLOGOS,4/2/1880].They decided to send representatives to Con/ple with the aim of convincing the Porte to revoke the Convention.Similar objections to the Convention were raised by the British bondholders.Hammond,in particular,sent a note to the Porte strictly denouncing the Convention,He was joined by others who sent a joint communication to Salisbury [DU VELAY(1903)405].The committee headed by Guedalla also reacted strongly.Guedalla himself protested to Salisbury and asked the British government to refuse to recognise the Convention and demand the appointment of an Intenational commission as agreed at the Congress of Berlin [A&P(1880)LXXXII,78,82-83].

The syndicate of local bankers,on the other hand,claimed that all these securities had already been revoked by the government with the Ottoman suspension.In addition,they claimed that when the government was in the utmost need of money European capitalists had done nothing to assist it:instead,it was they who took the burden of financing the government after 1875 and especially during the war with Russia [DU VELAY(1903)399].The foreign bondholders were correct when they asserted that their rights had been violated but,in the circumstances,the local bankers could also claim that their own assistance to the government at the most critical times required their immediate compensation.By any reckoning,the Convention was neither more or less than the result of the existing "balance" of power.In this context all arguments were of secondary importance.Yet,the administration of the six indirect revenues served as a model for future settlements.It was finally proved that no matter what arrangement the different groups of creditors might reach among themselves,they could not get more out of the government.Wheareas the latter,had agreed to cede some of its revenues to the bondholders,also permitting them at the same time to administer them and it was prepared to include this concession in any future agreement.

In the event,the administration of the six revenues came under the control of the bankers.The administration proper was undertaken by H Lang,a European economist.The administration employed 5.714 employees,of which only 130 were Europeans [DU VELAY(1903)411].When Lang became manager of the Administration,the situation looked rather onerous.According to Wrench, "It was founded that considerable sales of salt had been made by the government for forward delivery;that many of the Government stamp sellers were loaded with a supply of stamps sufficient to last for ten years;and that many tobacco dealers had paid the tax upon their stock of tobacco in anticipation of future wants."[A&P,1880,LXXV,Con/ple,1883].Wrench went so far as to say that the Grand Vizier and the Minister of Finance had regulated these supplies so that while the revenues appeared to be large they were in fact much lower than it was expected.

Nevertheless,low revenues were due to unsound administration rather than to meagre resources.Under sound administration,as was the case during Lang's management,revenues rose considerably.According to Lang's first report,during the first six months the administration of the six revenues showed significant improvement.Lang estimated that the assigned revenues would yield £T 1.620.000 in the first year.He expected revenues to rise more rapidly during the following years,provided that sound administration continued [DU VELAY(1903)411].Indeed the administration lived up to the bankers' expectations.On the 9th November 1879 Goshen,the new British ambassador in Con/ple,informed Granville that the Bankers had received £.T 1.100.000 [A&P,1882,,LXXXI,11].During the course of two years they received the estimated £T 2.200.000 [ECONOMIST,5/11/1881].

Towards the inevitable end:the establishment of the Public Debt Administration.

The success of the administration after the first six months,proved a valuable bargaining card for the government.It could now boast that due to sound administration the indirect revenues showed large increase.Therefore,it was prepared to negotiate again with the bondholders.For this reason the government issued the note of 3 October 1880.According to the note,the government was willing to cede the administration of the six revenues as well as the Tributes of Eastern Rumelia,Bulgaria,and Cyprus to foreign bondholders.In addition,the government would cede part of the Customs revenues,provided that the Powers would consent to an increase in tariffs.The government,however,insisted that the bondholders should appoint their own delegates without any interference from the European powers [A&P(1882)LXXXI,1,DU VELAY(1903)421ff].

Goshen immediately interviewed Subhi Pasha,the Finance Minister,and raised the question of the six revenues.He found that the Ottoman government intended to pay the bankers £T 640.000 annually,setting the balance free for the foreign holders [A&P(1882)LXXXI,2-3].Goshen,in addition,thought that the Porte had approached the Galata bankers and asked them to assist it in the negotiations with the bondholders.He himself,however,strongly opposed the idea of associating the bondholders' Delegates with the Galata bankers because the interests of the two groups appeared to be incompatible [A&P,ibid,16].The note of October 1879 met with a mixture of scepticism and hope on the part of the bondholders.Some groups of bondholders,such as those,of Hammond and Guedalla,rejected the Porte's proposals claiming that they were unworthy of consideration [A&P,ibid,12].Others,particularly the French,took a more realistic stand.

Nevertheless,the question of Ottoman finances was closely connected to political developments in the region.In addition,the advent to power of the Liberal party in 1880 changed the traditional and,by and large,friendly policy of the British government towards the Ottoman Empire.The new English government,headed by Gladstone,took a stronger stand towards the Ottoman Empire.As a consequence,the new British government exerted more pressure on the Ottoman government in connection with the financial question.It is not an exaggeration to say that this question became one of the major issues of the period along with the Dulcigno affair and the Thessalian settlement.

The British government raised the idea of the International Commission,claiming that the establishment of such a committee had already been decided at the Congress of Berlin.This was no doubt true.Yet the Ottoman side had rejected the proposal altogether asking,instead,for direct negotiations between the Ottoman government and the bondholders.Besides,the very idea of an International Commission had already been abandoned.In addition,in order to soothe the anxieties of bondholders,the Ottoman government established its own Financial commission which was to undertake the task of examining the Ottoman finances.The members of this commission included both European and Ottoman specialists [DU VELAY(1908)380].Harison was the British member of the commission;with this quality he kept the British Foreign Ministry well informed about the committee's work.

In the event,however,the British government decided to exert a good deal of pressure on the Ottoman State in order to accept the establishment of the International commission.Earl Granville instructed Goshen to emphasise to the Ottoman government that"they[the Sultan's Ministers]cannot hope to command the confidence of their creditors without the security which would be afforded by the participation of the Powers in any financial scheme that may put forward."[A&P(1882)LXXXI,6].At the same time,the British government asked the French to raise the question of the Financial committee together"as soon as the Dulcigno affair should have been settled."[A&P,ibid,7].

The Porte,on the other hand,was adamant on the question of foreign interference.Not unreasonably,the Ottomans feared that the International control of their finances would inevitably lead to political tutelage.Faced with this emergency the Ottoman government took a more active step towards the negotiation with the bondholders.On 4 December 1880,the Ottoman embassies in Europe issued an invitation to the bondholders to deposit their stock in a number of selected banks in order to elect their delegates [A&P(1882)LXXXII,17].The list of banks included the Imperial Bank,the Credit Lyonnais,the Credit Mobilier,the Comptoir d'Escompte,the Societe Generale of Paris etc.In addition,the Ottoman Embassy in London notified the British Foreign Ministry that the companies which had offered to receive deposits of Turkish stock were acting in concert with the Porte,and in order to be recognised by the Ottoman government delegates of the bondholders should be appointed in virtue of such deposits [Lyon to Granville,in A&P(1882)LXXXI,19].

The British government,however,insisted on the International commission.Nevertheless,it became clear that the British did not have the necessary European consent to impose their views.The French government had expressed its view on the question quite clearly:the International committee apart,the bondholders should have their own representatives [A&P,ibid,18].According to Lyons,the British minister in Paris,by mid December 1880 the French had finally abandoned the idea of an International commission altogether.St Hillaire,the French Foreign Secretary,informed Lyons that although he personally would have preferred the plan for an International Commission he did not consider it feasible"under the present disposition of the Porte."[A&P(1882)LXXXI,22].Since the British insistence was,at least partially,conditional upon the French consent,they were forced to abandon the idea of the International Commission.

As a consequence of this development,the bondholders were left free to decide whether to re-open direct negotiations with the porte or not.Most of them decided to negotiate and promptly elected their own delegates.Those British committees which initially objected negotiation on the grounds the Ottoman government had made no major concessions to the holders,were forced to join the others.By January 1881 both the English and French committees had elected their representatives.R Bourke,the English representative,and M Valfrey his French counterpart left for Con/ple.They were joined by the Italian,German and Austrian representatives a few months later [DU VELAY(1903)419].

Local bankers on the other hand kept a low profile during that period.They had succeeded in establishing control over some of the state revenues and at the same time in securing priority of payments over the rest of the creditors.This however does not imply that they felt safe.Firstly,they had to take into account the acute financial and economic problems of the Ottoman govenrment.As was to be expected,the latter still faced enormous liquidity problems.The traditional,and largely ineffective tax system could not respond to its current needs.In addition,the war with Russia as well as subsequent developments,such as the Thessaly question and the Dulcigno affair,further destabilized the revenue system of the Empire.It was for this reason that the government imposed a compulsory loan of £ T 3 million on the country's male population [AN F30 356,letter dated 22/2/1881].In the circumstances it became clear that only access to European money markets could solve the government's financial problems.Yet,the issuing of a fresh loan inevitably impinged on the unsettled Ottoman debt.It became clear,therefore,that the government could find credit in Europe only if it satisfied the bondholders' demands.Certainly these developments did not alleviate the bankers'anxieties.In addition,the government's attitude towards some of its guaranteed advances aroused scepticism if not apprehension.In early 1880 the government removed the guarantees given to E Baltazzi for his advances in a most arbitrary way.Although these particular advances were not included in the November Convention,the action of the government infuriated local bankers [AN F30/356,letter dated 22/2/1881].

The bankers were also aware of the government's game with the bondholders.They knew,in addition,that the bondholders were not happy with the Convention of November 1879:they had every reason to resent the bankers' agreement with the government.One may also say that the bankers were not surprised when the government issued the note of 3 October 1880.They knew that the Convention was only provisional and,therefore,that an agreement between the government and the holders was,if not imminent,unavoidable.On the other hand they had their own interests and knew how to defend them;no agreement with the holders could be reached if it excluded the settlement of the floating debt.The bankers' tactic was precisely to safeguard the payment of their advances whatever agreement the government might come to with the bondholders.

As early as December 1880 Goschen emphasised to Granville that, "they[the bankers]are always anxious to please the government.But I have seen symptoms of fear on their part that the argument which are now used to justify their claims may be,before long,used against them;that the Porte will plead that it is again in a position when it is a matter of life or death to obtain money...The bankers may feel that under their position an arrangement with the creditors under which...they may not be repaid so much of their capital but may render the payment of their interests more secure...might be advantageous to them under the present very critical circumstances."[A&P(1882)LXXXI,17-18].

However,the group of local bankers proved more flexible.Not only did they agree to participate in a future settlement,but also to cede part of their annual receipts to the bondholders.On 12 September 1881 the delegates applied to the Galata bankers to facilitate arrangements by accepting a smaller sum from the government than they had been receiving up until then. "The bankers who have reasons of their own for wishing to release the large amount of their capital now locked up,and whose interest it is therefore to help the delegates have expressed their readiness to accept a lesser annuity than the £T 1.1 million they now receive,on condition that they get a proportionate extension of the term of eight years during which it is run." [Dufferin to Granville,in A&P(1882)LXXXI,50-51].In early November 1881,the bankers and delegates finally came to terms with one another.The bankers'annuity would be reduced to £T 595.000,the balance being left to the general holders.In this way the revenues assigned to the bondholders would exceed two million Turkish pounds [A&P,ibid,58-59,ECONOMIST,5/11/1881].The Convention of November 1879 was officially cancelled by the government and the representatives of the local bankers on the 28th of December 1881 [YOUNG(1906)64-69].According to the Decree which annuled the Convention,the bankers would cede the administration of the Six contributions to the creditors and would received privileged bonds valued at £T 22 each.In addition the new administration would be obliged to give priority to the payment of these bonds over those of creditors of all other classes [YOUNG(1906)64-65,ISSAWI(1980)363].

The final agreement between the government and its creditors resulted in the Muharem Decree which was signed on 20th December 1881.The decree stipulated the establishment of the Public Debt Administration(P.D.A)which was going to undertake the administration of those revenues of the Empire which had been assigned to the bondholders.The Ottoman Public debt was reduced by half:from about £T 200 million to 117.Though the P.D.A was the "collective" representative of the bondholders,it was under the jurisdiction of the Ottoman government [YOUNG(1906)69-95].

The agreement was nothing more than a compromise between the government the local bankers and the general creditors.In this way the government succeeded in avoiding foreign control,the local bankers in collecting the interest on their advances and the general bondholders in controlling some of the revenues of the Empire-the only way in the circumstances to get their money back.Since it was a compromise all parties lost and gained.In financial terms,the government lost some of its revenues though it regained access to the European money markets;the bankers lost their privileged position yet recovered a large part of the capital which had been locked up in the Public debt;whereas the general holders had to accept the reduction by half of the Ottoman debt though they found a way to control state revenues.

The functions and consequences of the P.D.A are beyond the scope of this thesis.Yet it is essential to emphasise some aspects and to raise some questions.The establishment of the P.D.A introduced a new phase in the social and economic history of the Ottoman empire.In many ways it became Turkey's dynamic new institution.It dealt not only with the administration of the assigned revenues,but also with aspects of economic policy.Its very function initiated a debate which continued for the years to come;Was it a curse or a blessing for the Ottoman Empire?It was something between the two;in many ways it contributed to the economic development of certain aspects of the export oriented sectors of the Ottoman economy while at the same time thousands of young Turks were introduced to modern management.On the other hand,the P.D.A with its special links with European capitalists,and European capitalism in general,increased the links between the Ottoman economy and the European markets.In other words it contributed to the establishment of a specific division of labour between this economy and European capitalism.What on the other hand,would Turkey's future have been without the role of P.D.A?The question,perhaps,sounds naive since the position of the Ottoman economy vis-a-vis European ones was already been defined.Yet the role of the Administration was so important that the question is,in my judgment,valid.Because it is no exaggeration to say that the P.D.A redefined the context and the functions of the Ottoman economy.It was now within this new context that all aspects of the Ottoman economy,banking,agriculture,railways,etc functioned.

CHAPTER XI:Conclusions.

The development of Greek banking during the period under discussion can be understood only in terms of a variety of short and long term factors.The most important long term factor was the emergence of the Greek mercantile bourgeoisie in the Ottoman empire and the Levant.The development of Greek commercial activities was closely associated with the Ottoman import-export trade.Availing themselves of the emerging economic opportunities Greek merchants established large commercial networks and involved themselves in various trades.The propitious international environment of the late 18th century allowed the further expansion of their activities.The Napoleonic Wars had no harmful effect upon Greek capital.In fact,these wars allowed Greek merchants to strengthen their position and expand their business.The development of the Greek marine during the Napoleonic Wars further contributed to the establishment of Greeks as the leading traders of the Empire.

However,the Con/ple based Greek merchants received a harsh blow during the Greek War of Independence.Increased oppression led them to leave the city and to return only when sufficient guarantees for their safety had been given.Mainly due to increasing commercial transactions with European countries the Greek merchants in Con/ple succeeded in re-establishing their leading position and welfare by the 1840's.Thenceforth a new circle began.The integration of Ottoman agriculture into the network of European capitalism provided further motives for commercial activities.Events such the Crimean and American Civil Wars boosted Greek commerce considerably.As one would expect Greek merchants began looking for alternative investments.It was during this period that large amounts of Greek capital in Con/ple were shifted to banking.

In the early stages Greek banking was conducted by private houses which relied both upon their own capital and European credit.Houses such as those of Zarifi and Zafiropoulo or Syngro Coronio and Co. played an important role in the development of banking in Con/ple.There were also several Greek private bankers such as Christaki Zografo,Schillizi,Baltazzi etc who contributed to Greek banking.The introduction of European capital allowed the establishment of many joint stock companies founded by various combinations of Greek and other local or foreign capitalists.To a certain extent these new banks resembled the French banques d'affaires despite the fact that they were never involved in industrial investments-a fundamental aspect of these French banks.Nevertheless the capital of these Con/politan banks was raised through public subscription.In addition they mobilised the capital of rich local capitalists and used it in various ways.However,the banks did not accept deposit accounts in the current meaning of the word.The capital entrusted to them was always lent and paid back on short term.In fact,Con/ple never saw the establishment of banques des depots.No Greek bank ever attempted to mobilize local savings despite the fact that such an attempt might eventually have proved successful.Contemporary observers have pointed out the enormous amounts of money invested in jewellery or precious stones[FARLEY(1872)219-223,NEOLOGOS:4/16 10/1880].

During the 1870's,therefore,there were two categories of Greek banking houses.The private banks and bankers and the banks founded by or closely associated with Greek capital.However,most of the Greek bankers of the period continued to engage in trade as well.In fact,trade and banking continued to be the major fields of investments of Greek capitalists throughout the period under consideration.Yet,from the 1860's onwards the emphasis was undoubtedly on banking.By the 1870's although most Greek bankers had also trade concerns were,mostly involved in banking.

The reason why the shift to banking finally took place is simple.Greek capitalists-mostly merchants-came to understand that banking could provide them with profits far exceeding those realised in trade.However,the shift to banking only partly involved merchant banking.The field which mostly absorbed Greek capital was the funding of the Ottoman state.And with very good reason.The rapid growth of the Ottoman Public debt provided a lucrative field for investments and Greek bankers promptly took advantage of the situation.

However the role of Greek bankers in the issuing of Ottoman loans was marginal.Apart from a few occasions they did not participate in the syndicates which raised these loans.Instead the main activity of the Greek banking houses in Con/ple was associated with the provision of short term advances to the Ottoman state which allowed the latter to service its Public debt and fund its internal administration.Short term advances to the Treasury was the fundamental activity of Greek bankers throughout the period under discussion.In fact it was this field which provided them with enormous profits.As has already been mentioned profits from short term advances varied between 10 and 25 per cent. These figures were much higher than those realised in banking in Europe.

Not only did advances bear high interest rates,but they were also usually remitted within a period of a few months.Both capital proper and the profits realised in those transactions were again put to the same use.In this sense these advances ensured a sufficient circulation of capital and allowed Greek banking houses to operate profitably.However the capital resources of Greek bankers were rather limited and therefore the funding of the Ottoman state could not be sustained on a regular basis.To do so Greek bankers had themselves to borrow money in Europe.It was the difference between interest rates in London and Paris and those in Con/ple which secured large profits.At that time interest rates in Europe varied between 3.5 and 5 per cent.Yet Greek bankers charged the Treasury with three to four times those figures-a perfectly legitimate interest rate if the low level of capital accumulation in Turkey compared to that in Europe is taken into consideration.In 1866 Lewis Farley,a keen observer of the Ottoman empire,attempted to raise the interest of the Lombard street bankers precisely by comparing the rates of interest prevailing in London and Con/ple [FARLEY(1866)7].

In due course the Greek bankers and banking houses developed a very specific relation with European capital.The main aspect of this relation was the dependence of Greek banking on European credit.Such an unequal relationship naturally stemmed from the dominant position of the European capital markets.In the event,European credit became an indispensible precondition for banking in Con/ple.The provision of credit and capital eventually came to influence the Con/ple money market to a considerable extent.In the long term,however,this influence had both positive and negative aspects.Positive first:the development of European capitalism led to a substantial increase in foreign investment which,among others,affected the Ottoman empire as well.Undoubtedly the provision of credit to Greek and other local bankers in Con/ple should be included in this process.The availability of

European capital considerably boosted banking in Con/ple and contributed to the emergence of numerous banking houses during 1860's and the early 1870's.

Greek bankers took advantage of the influx of European capital and participated in the establishment of most of the new banks.They hoped that increasing European credit would secure the future of these establishments.To a large extent the provision of credit lived up to their expectation.Cheap capital was available for most of the period under discussion.In final analysis Greek bankers acted as a further conduit for Europen economic penetration in the Ottoman empire.European credit amended their limited capital resources and allowed them to participate in an operation requiring vast and always available amounts of money,namely the short term advances to the Treasury.

This positive aspect apart,the reliance on European capital had other,less desirable,consequences.For Greek bankers became so strongly dependent upon European capital that any contraction of their credit in Europe caused them substantial damage.The Wars between European powers,or even the prospect of war in Europe,led the Con/ple money market to experience severe financial crises.In addition,financial crises in Europe,such as those of 1866 and 1873,had disastrous effects on the Con/ple money market.In both cases European houses usually recalled their capital at short notice.Greek bankers on the other hand were usually indebted in Europe to a far greater extent than their own capital resources permitted.Thus,they found themselves in a predicament.In the circumstances further borrowing in Europe was much more difficult.In such occasions many Greek and other local banking houses went bankrupt.One should emphasise,however,that not all Greek bankers were affected to the same extent.The leading Greek bankers such as George Zarifi,Andreas Syngros and others were always in a position to cope with emergencies.They resorted to the Ottoman Treasury requesting the immediate repayment of,at least part,of their advances.Their connections with the Ottoman state and the fact that their credit in Europe was good,even during financial crises,eventually allowed them to find the necessary amounts.Instead it was the large number of small and middle size banking houses which usually suffered most.

At this point another aspect of Greek banking should be emphasised:the association of Greek bankers with the Ottoman Treasury.In this case a particular interdependence had been established.The Treasury resorted to the local money market for credit.Greek and other local bankers usually responded positively-and had no reason not to since these transactions were always lucrative.Consequently,the bulk of their capital was locked up in short term advances.However,the difficulty of the Ottoman state in servicing its debt proved to have undesirable consequences for Greek banking.European houses alerted by the prospect of Ottoman insolvency were reluctant to lend money to Greek bankers unless at a much higher price.Cut off from cheap European credit the bankers had to bear the risk.Most of the time they decided to make advances to the Treasury lest they risk their already advanced capital.In such cases profits on short term advances tended to decline.Certainly lower returns were always a temporary phenomenon and most of the time profits ran high.In cases,however,where Europen credit became expensive the bankers charged the Treasury accordingly.

The Greek,and other local,bankers found themselves confronted with a dilemma.They realised that without their assistance the Ottoman state would face enormous financial pressures and,in due course,the Treasury would go bankrupt.Yet,the Treasury was their most important client and its insolvency would have strongly affected their business.As a result the turnover of almost every banking house in Con/ple would have declined dramatically.Profits would decrease accordingly.The capital already locked up in short term advances would be put at risk.In other words the Treasury's capacity to pay back what it owed eventually became a precondition for banking.Keeping the Treasury on its feet not only provided the bankers with large profits.In the event it became a necessity which to a large extent secured their own future.

Thus,Greek bankers found themselves operating under pressure from two sides.On one hand they had to cope with exigencies deriving from the contraction of European credit and on the other they had to back the Ottoman state,the sector which not only provided them with large profits but also absorbed the bulk of their capital.The picture becomes clearer if one takes into account the influx of European capital into Con/ple-a factor which largely contributed to the establishment of these relations.During the early stages of the period under discussion the Greek bankers' propensity to lend to the Ottoman state followed the cycles of capital inflows and financial crises.At a later stage,however,they had no other option than to advance the capital necessary for the service of the Ottoman debt.That was particularly true for the period 1873-1875 when the Ottoman state,already on the verge of insolvency,had to rely more on local capital resources than those of the European money markets.In 1875,however,the capital resources of the Con/ple money market were near exhaustion,a factor which must have influenced the Ottoman state in its decision to suspend debt service payments.

One may infer therefore that Greek banking in Con/ple had its own dynamic.Greek bankers made advances to the Treasury throughout the period under discussion.It seems,however,that during the early 1870's they became increasingly concerned about the damage that state insolvency might inflict on their interests.Short term advances were not only desirable but at a later stage onwards unavoidable as well.To consider the development proper of Greek banking without taking into account the double dimension of short term advances as a source of welfare and at the same time as a necessary investment is unrealistic.

The Ottoman suspension of debt service payments in October 1875 certainly did not soothe the anxieties of Greek bankers.Instead it led them to closer association with the Ottoman state.As already mentioned a large number of local houses wound up their activities during the crises of the 1873-1875 period.However,the leading Greek bankers and banking houses had survived the crises and were faced with a new dilemma.The eventuality they had feared,had now come true:having failed to avert the Ottoman suspension their preoccupation was how to recover their already advanced capital.

They realised that the Ottoman state was not in a position to raise fresh loans in Europe and,therefore,the only way to secure the payment of their advances was via the state revenues proper.Certainly the same problems were also faced by other local establishments,including the Imperial Bank.The Greek bankers' response to the new conditions involved new strategies.They continued lending to the Treasury in order to receive better securities for their old advances,an attempt which in the end proved successful.Some Greek houses,such as the Banque de Con/ple,even attempted a gradual disengagement from the Ottoman empire.All Greek bankers,however,came to realise that in the circumstances a more viable solution had to be found.To be feasible,this solution should involve the control of part of the Ottoman revenues-a consideration common to all projects regarding the settlement of the Ottoman debt.The realisation of mutual interests,namely the involvement in short term advances,led Greek bankers to ally themselves with the Imperial Bank and the other local houses.Their common opposition to the claims of European bondholders derived essentially from the bankers position as creditors of state cut off from the European capital markets.

The settlement of the Ottoman debt impinged both on political and economic considerations.Yet,the emergence of new alliances among the parties most interested in the payment of the floating debt substantially affected that settlement's procedure.The Greek bankers participated in the group of the floating debt alongside the Imperial bank the Credit General and others.They all shared the same principle:that their payment should have priority over the payment of the Public Debt.As one would expect the conflict between the two groups was bitter.The group of the floating debt considerably strengthened its position during the war with Russia when the Ottoman government entirely relied upon local capital resources.The Convention of November 1879 was undoubtedly a success for this group.Despite this success,however,the parties which comprised the group of the floating debt finally came to terms with European bondholders.Fearing that the government might dishonour their agreement they eventually opted to cooperate with their opponents.Besides they did not exclude an agreement by definition providing,of course,that their own interests were to be safeguarded.The establishment of the Public Debt Administration was a compromise which satisfied all interested parties.Greek bankers succeeded in getting tangible securities for their advances guaranteed by a respectable Convention.

The reader should alredy have realised that the long term involvement of Greek capital in short term advances led or rather strenghtened inelastic capital investments.In fact that was the final result of the twenty years involvement of Greek capital in banking.Certainly Greek bankers involved themselves in other activities as well but always to a limited extent.Even the extensive speculation of the early 1870's absorbed comparatively limited banking capital.Speculation was a temporary and short-lived phenomenon in the Con/ple money market and was mostly practiced by small and middle size capitalists rather than by the leading bankers.

By and large Greek bankers were reluctant to make other investments for a variety of reasons.Profit considerations must be emphasised.Capital flows where it receives the highest returns and the Ottoman empire was no exception.Compared to other investments short term advances were by far the most lucrative.In fact similar attitudes were displayed by European founded banks as well.The Imperial bank never participated in direct investments,at least to a large extent.The only cases where this bank did so were when it co-founded the Societe des Tramways in 1871 and the Societe des Eaux de Con/ple in 1877.In both companies,however,the Greek capital,both directly and indirectly,played an important role.A similar attitude towards direct investment was displayed by the French Credit Lyonnais-a bank which made a considerable contribution to the industrialisation of France.The Credit Lyonnais established a branch in Con/ple a few months before the Ottoman suspension of payments.This bank,however,was already involved in Ottoman finances particularly through the provision of credit to several Con/politan banking houses.The Credit Lyonnais entirely abstained from investing in sectors other than the Ottoman finances.Interest rates were so tempting that the general director in Lyons finally overcame his initial reluctance and consented to the provision of short term advances to the Treasury.The bulk of the total investment of 15.400.000 fr realised in the period 1875-1881 was placed on short term advances [BOUVIER(1962)731].

It is clear,therefore,that Greek bankers displayed a similar attitude to that of the European banks.Once again the role of banking proper has to be considered.Banks have not been created to fund industrial enterprises,to raise capital for railway projects or even to issue State loans expressly.According to the circumstances they involved themselves in every possible field of investment.In Western Europe banks eventually came to fund industrialisation,railway construction etc.In other areas banks responded in a different fashion and gave emphasis to other investments.The degree of involvement in business entreprise varied with different companies and individuals.On any reckoning,however,banks were founded to meet particular needs[See the interesting article of HARRIS and THANE,1984].

In the Ottoman empire,banking practice was defined by the financial needs of the Ottoman state rather than by the requirements of the economy as a whole.Greek bankers in particular responded to the financial needs of the .Ottoman state.Owing to their strong connection with the Ottoman state they came to assume an important role in Ottoman finances.Some of them,such as Christaki Zografo and George Zarifi even served as court bankers.The Greek bankers'investment attitude was conditional upon the rate of profit and the availability of capital and credit.In so far as they realised large profits they employed their capital in short term advances.And in so far as they found in short term advances more remunerative terms for their capital they eschewed investing in other sectors.

This is particularly true with regard to industrial investments.Yet as far as such investments are concerned one should take into account another aspect:during the period under discussion Greek bankers did not contemplate economic development in terms of industrialisation.Presumably they were aware of this process but it is highly unlikely that they considered industrialisation feasible in the context of the Ottoman economy and therefore profitable and worthy of investment.Unfortunately,there is insufficient evidence to suggest that this remark applied to all Greek bankers.Yet,there is also no evidence to suggest that,at least to some extent,Greek bankers had a different approach to the question of direct investments.One exception is worth mentioning:the Baltazzi tobacco factory in Con/ple.It appears that the bankers approach to this question was simply practical.Their own fortunes rested upon trade.One may,therefore,assume that they tended to generalise on the basis of their own experience,as well as that of their predecessors,and apply it to the economy as a whole.Zarifi's remarks on the question are revealing.Discussing the prospects of the 1868 Greek loan he argued that trade and the improvement in transportation eventually could bring the Greek state in a position to challenge the Ottoman empire[see above chap.IX,238].Zarifi,however,did not mention or even hint at industrial development.

Yet,one should not come to conclude that the Greek bankers did not approve direct investments a priori.The development of other sectors of the Ottoman economy,which took place later in the century,such as mining,public works,railways etc strongly affected their approach to the question.It must be remembered that banks tend to meet every need providing that this is profitable.In fact the attitude of the Greek bankers in the years following the period under discussion changed radically:they began to invest in a variety of sectors.In this context is quite revealing to see the position of three of the leading Greek bankers,Leonidas Zarifi,George Mavrogordato and Ettiene Evgenidi in the early 20th century.From the existing evidence it appears that in 1906 they directly participated in twelve companies.Yet only three were banks.The Bank of Mytilini,The Credit Industriel de Grece and the Deutch Orientbank Aktiengesellshaft.The rest were mining companies-Mines de Balis-Karaidin,Mines De Kassandra,Societe d'Heraclee,Mines de Karassou-and railway companies-Chemins des fer Ottoman d'Anatolie,Societe des fer Ottoman Salonique Monastir,Societe des Fer de Bagdat.They were also involved in the Societe des Eaux de Con/ple and the Regie des Tabacs [PECH(1906)34,77,94-100,124-134,135-146].In addition,at that time Ottoman Greeks had become the leading industrialists of the country.Unfortunately,it is not simple to say whether Greek bankers participated in industrial investments as well.I would simply argue that their investment attitude varied according to the rate of profit and the availability of capital and had such factors existed their involvement in industry would have only been natural.This discussion,however,takes us beyond the scope of this thesis.

Finally it is true that the introduction of foreign capital substantially affected the position of Greek bankers.Foreign investments undoubtedly affected their profits and influence particularly after 1881 when such investments increased considerably.Yet,it would be misleading to assume that in view of this development the role of Greek bankers declined completely.After all the introduction of foreign capital allowed them to extend the scope of their business.Instead,it would be more correct to suggest that they assumed a new,if diminished,role compatible with the emerging conditions but,by and large,they succeeded in coping with the situation successfuly.It was only during and after the WW I that the Greek diaspora,and the Greeks in the Ottoman empire in particular,received a fatal blow.The subversion of the existing pre-War political and economic stabilities,which followed the Great War,was mostly responsible for the irrevocable decline of the Greek diaspora.With the exception of Egypt,Greek interests were almost totally liquidated in the major traditional centres where Greeks used to hold considerable economic roles,namely the Ottoman empire and Russia.Thus,if a date of decline of Greek banking in Con/ple must be set then it was the year the Greek Army in Asia Minor was defeated:1922.This tragic year,however,signalled not only the decline of Greek banking,but also,due to the uprooting of the Ottoman Greeks which followed the Lausanne Treaty,the decline of Greek economic activities in Turkey in general.

APPENDIX I

Currency parities.

1 £T=100 piastres

1 £=110 piastres

1 £T=23 francs

1 £=25 francs

1 dr=0.89 francs

APPENDIX II

Convention entered into between the Imperial Government and certain Banks.(Extracts)

Date:22 November 1879.

Art.1:The Imperial government leases to Messrs.M.H Foster,E Deveaux, J,Von Haas,George Zarifi,Salomon Fernandez,Bernard Tubini,E Eugenidi, Theodore Maurogordato,A Vlasto,Alfred Barker,George Coronio,L Zarifi, Z Stefanovich,Paul Stefanovich-Schilizzi,and U Negreponte who accept it for the term of 10 years beginning on January 13 1880,and ending on the 13 January 1890,the collection of stamp tax,and of the spirit tax(...)with the exception of Customs dues levied on spirits ,of the fish tax of Constantinople and its suburbs(...) and of the silk tax of the districts of Constantinople,Andrianople,Broussa,and Samsun.(...)

Art.2:The annual price of rent charge for the whole duration of the lease shall be equal to the net revenue,in beshlik or metalic ,of the four above mentioned taxes plus 10 per cent.(...)The price of the lease will be paid in beshlik and metallic by the contractors of the second category(the bankers) in twelve monthly installements in arrears(...).

Art.3:the four taxes given in lease will be collected according to the existing Tariffs and regulations relating to them and they shall not be modified except by the mutual consent of both Contracting parties. (...)

Art.5:The Imperial government gives over for a period of ten years, beginning on the 13 January 1880 to the contractors mentioned in Art.1 the administration of the monopoly of salt and tobaccos produced or consumed in the villayets of the empire(...)with the exception of the tobacco tithe.The state will exercise a control over the administration by means of inspectors appointed by it.(...)

Art.8:The annual revenue of the lease of the four taxes as well as the net revenues of the monopoly of salt and tobaccos will invariably be employed in the following manner;the second contractors will deduct from the receipts of every quarter £T 275.000 which will be affected to the rembursement,interest and capital,of the following debts;rough estimate of Mr G Zarifi's debt with interest guaranteed by the Customs,on the 13 January 1880,£T 690.000;rough estimate of Messrs S Fernandez and A Barker and their co-contractors'debt with interest(...),£T 1.800.090; rough estimate of the Imperial Bank's debt with interest,guaranteed by the indirect taxes and forming part of the sum of £T 1.080.000 advanced by the said bank on the 13 January 1880,£T 860.000;rough estimate of the surplus of t e statuary current account of the Imperial Bank with interest on the 13 January 1880,£T 1.750.000;rough estimate of the Imperial Bank's debt with interest proceeding from the Great Unified Advances(les quatre avances) with interest on the 13 January 1880,£T 3.625.000.Total £T 8.725.000,all which debts will from the 13 January 1880 bear an interest of 8 per cent per annum.This sum of £T 275.000 will be alloted to the payment of the above mentioned debts(...)This quarterly deduction of £t 275.000,once made,the surplus will belong to the bondholders of the external and internal Public Debt and be deposited by the second contractors through t e Imperial Bank into the hands of the representatives of the bondholders elected by the Imperial Government.(...)

Art.10:The accounts and deductions mentioned in Art.VIII will be made at the end of each quarter after passing to the Treasury's credit the return interest which accrue to it at a rate of 8 per cent per annum on the monthly receipts of the four taxes(...)The second contractors will equally pass to the credit of the Treasury a return interest at the same rate of 8 per cet per annum deducted every fortnight from the receipts of the monoply of salt and tobaccos until such time as the quarterly sum of £T 275.000 be complete.

Art.13:The Imperial Government (...) preserves the right of cancelling before the expiration of the ten years,the stipulation of the present Convention under the two following essential and peremptory conditions:
1/in the case the debts maintained in Art.VIII,capital and interest, are integrally reimbursed.
2/in case a new regulation more advantageous to the bondholders of the external and internal Public Debt than the present Convention(...) intervenes between the Imperial Government and the above mentioned bondholders.
(......)

Source:A&P(1880)LXXXII,Turkey no 20,Correspondence respecting Ottoman loans,72-75

APPENDIX III

Decree respecting the resumption of the(Debt) service and the mortgage of certain revenues.

Date;22 November 1879.

(official text communicated to the Foreign Missions)

The Imperial government,having decided to ressume in the mesure of its actual sources,the service of the external and internal Public Debt decrees:

Art.1:Beginning from 13/1/ 1880 an annuity of £T 1.350.000 will be destined for the service of the external and internal Public Debt.

Art.2:This annuity will be devoted to half-yearly(semestriel) interest payments on the nominal amount of this Debt.The first payment will take place on 13 July 1880.

Art.3:The annuity of £t 1.350.000 is assured and guarantied,

1/by the stipulations of the Convention between the Imperial government on one part,and the Ottoman Imperial Bank and Messrs M Foste ,Emile Deveaux,J Von Haas,George Zarifi,Salomon Fernandes,B Tubini, E Eugenidi,Theodore Maurogordato,A Vlasto,Alfred Barker,G Coronio, Z Stefanovich,Leonidas Zarifi,Paul Stefanovich-Schilizzi,and U Negreponte on the other, according to which the net annual revenue of the monopolies and taxes on tobacco,salt,spirits,timber,fish and silk,after the previous deduction of £T 1.000.000,will belong to the bondholders(.....)

2/by the annual revenues of Cyprus and Eastern Roumelia,which from this day onwards and in accordance with this decree,are ceded to the bondholders for a period of ten years.(.....) In case of insufficiency the annuity will be completed by additional sums(see Art.4) and if necessary by other Imperial revenues.

Art.4:Independently of the annuity of £t 1.350.000,and from this day onwards the Government irrevocably assigns to the bondholders,

1/The Bulgarian Tribute and all ammounts which Serbia,Bulgaria,and Montenegro will contribute to the Ottoman Public Debt.

2/the third of the net product of future taxes.

3/the third of the product comming from any increase in the duties which may result as a consequence of the revision of the existing commercial Treaties.

4/any ammount which may result from the difference between the proceeds of the temettu*fee and that of the pattent fee,when the latter will be enforced by law.

Art.5:The Imperial Government will determine,with a regulation which will settle with the representatives of bondholders,

1/the allotment of the fixed annuity of £T 1.350.000 and of the supplementary annuities among the different categories of the external and internal Debt.

2/the system of payment of the annuity.

Art.6:The effects of the present decree are limited to ten years in the end of which the final conditions of the service of the external and internal Debt will be settled by a new decree.

The present decree has only a provisional character and the rights of the bondholders remain intact.The Imperial government engages itself not to suspend or modify,before the expiration of ten years, the arrangements of the present decree unless with the approval and concurrence of the bondholders.

*profit fee.

Source:YOUNG(1906),61-62,NEOLOGOS,24311/1879.

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